

# The five lessons learned from the coronavirus crisis

*Observations by the National Audit Office on crisis  
preparedness and crisis management; on the  
organisation of vaccinations and support for  
businesses and local authorities*



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## Foreword

Our greatest asset is our people. That is why this year's annual overview for the Riigikogu focuses on the topic that concerns our people the most – the coronavirus crisis and related problems in both public administration and in the use of finances.

Over the past two years, the National Audit Office has prepared and published several audits, reviews and memoranda concerning different aspects of solving the coronavirus crisis. This overview summarises the most important of the problems for the members of parliament in a format that could serve as a lesson for the future. Both coping in the new waves of the coronavirus crisis and the need to prepare for new crises have been considered. We do not know yet when they are coming and what they are about, but, regrettably, they are coming.

The overview here is mainly based on observations made during the first and second waves of the coronavirus crisis on the functioning of the state, the decisions of the government and the measures implemented. Some of them have also been submitted to the Prime Minister and the Government of the Republic in an analysis that I prepared this summer and autumn at the request of the head of government.

As we are approaching the crest of the third wave, the lessons learned from the first and second waves concerning crisis management, governance, cooperation between and accountability of the crisis management agencies and working groups, and explaining the decisions to the public, do not seem to have lost their relevance.



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## The Estonian economy has adapted to the crisis caused by the virus better than expected

1. The discussions and decisions concerning the coronavirus pandemic have been dictating the agenda of the Estonian government for almost a couple of years now. And although countries around the world have responded somewhat differently to the COVID-19 pandemic, the best combination has been sought everywhere to reduce the spread of the disease, keep the health and education systems functioning and support the economy hit by restrictions.
2. Although it is extremely difficult to find out the causal links as to why one country has done better in the crisis than another, Estonia managed to avoid the worst outcome for the economy in responding to the first two waves of the COVID-19 pandemics (until summer 2021). This has probably helped Estonian enterprises so far to withstand the crisis caused by the disease better than expected (read about the challenges in coping with new outbreaks from clause 20 of the overview).
3. In the first quarter of 2021, the Estonian economy exceeded its pre-crisis volume and in the second quarter also the level forecast in the autumn of 2019, when the virus causing COVID-19 was yet unknown. The 3% decline in the gross domestic product (GDP) in 2020 was replaced by an increase of approximately 9% in the first half of 2021, including an increase of almost 14% in the second quarter compared to a year ago. The Ministry of Finance forecasts this year's annual GDP growth to be 9.5% (see Table 1).<sup>1</sup> In April still, the growth in 2021 was forecast to be 2.5%.

**Ministry of Finance: in 2021, the GDP is increasing by 9.5%; a 2.5% increase was expected in the spring**

**Table 1. A selection of Estonian economic indicators in 2019–2020 and the forecast of the Ministry of Finance for 2021–2025**

	2019	2020	2021	2022	2023	2024	2025
Real GDP growth rate (%)	4.1	-3.0	9.5	4.0	2.6	2.9	2.8
Export growth (%)	6.5	-5.0	13.8	6.5	4.0	3.2	2.9
Unemployment rate (%)	4.4	6.8	6.7	5.8	5.7	5.6	5.6
Average wage increase (%)	7.5	2.9	7.0	6.7	6.0	5.5	5.4
Consumer price index (%)	2.3	-0.4	3.8	3.7	2.1	1.9	1.9
Labour productivity increase (according to number of the employed; %)	4.0	-0.8	9.8	2.5	2.5	3.0	3.0

Source: summer 2021 economic forecast of the Ministry of Finance

**The decline in Estonia's GDP was smaller in 2020 and in 2021, the recovery has been faster than the EU average**

4. In 2020, the Estonian economy declined less than the EU-27 average (-5.9%) and in the first half of 2021, increased more than the EU average (approximately 12%).
5. The economies of other Baltic States and Scandinavian countries have so far also coped relatively well with the pandemic. For example, the Latvian economy declined by 3.6% in 2020 and increased by about

<sup>1</sup> <https://www.rahandusministeerium.ee/et/riigieelarve-ja-majandus/majandusprognoosid>

9% in the first half of 2021 compared to a year ago. The corresponding figures for Finland are –2.9% and 6%; Sweden has done a little better than Finland. The Ministry of Finance forecasts that Estonia will continue its economic growth in the period 2022–2025 as well, in the range of 2.6–4%.

**Market share of Estonian traders abroad increased during the crisis; business confidence and consumption are at pre-crisis levels**

6. Several other indicators also indicate the flexibility and ability of Estonian entrepreneurs to adapt to the crisis. In 2020, Estonia's exports decreased by 5%, while the general decline in foreign demand in world markets was even larger, i.e. 7%. Service export has grown significantly due to the strong performance of the information and communication technology sector.

7. The confidence of entrepreneurs with regard to the future is back on the pre-crisis level, just like private consumption. Investment growth is supported by public sector spending and household savings. Led by the private sector, wages are strongly rising, but inflation as well, primarily as a result of the price increase in energy sources.

**Unemployment remains relatively high, inflation is eating up wage increase and tourism is struggling**

8. Even though the Estonian economy has recovered on a relatively broad scale, there are still risks and imbalances on the development path. The situation in the labour market is controversial: unemployment remains high, but entrepreneurs are saying it is difficult to find people with the right skills. The number of unemployed, which rose sharply at the beginning of the crisis, has fallen by only a quarter, and the Ministry of Finance has estimated that unemployment rate will remain essentially the same in 2021 as the year before: at 6.7%.

9. It should be noted that the rise in the cost of living cancels out more than half of the increase in income. Furthermore, not all sectors of the economy are experiencing an equally rapid recovery: accommodation and catering businesses, in particular, will continue to have to wait for the income to recover. The main question about the future of the economy and the society as a whole, however, is how Estonia will cope with the new COVID-19 outbreak.

**The current rapid economic recovery will bring hundreds of millions more in revenues to the treasury in 2021 than expected**

**The treasury will receive more than 500 million euros more in tax revenue this year than expected**

10. The coping of the Estonian economy with the impact of the spread of the virus and the restrictions applied to control it better than expected is also reflected in the tax revenues received by the state. While in the spring of 2020 the Ministry of Finance forecast this year's tax revenue to be about 8.3 billion euros, the forecast published in September expected the state treasury to receive 530 million euros more this year, or almost 8.8 billion. According to the forecast, the total revenue of the state budget will reach 12.4 billion euros this year, which is about 14% more than in 2020.

**The European Union to contribute 1.3-1.6 billion euros annually to Estonia's state budget in the near future**

11. The Ministry of Finance estimates that in the period from 2022 to 2025, the state budget revenues will grow by an average of 5% per year, exceeding 15 billion euros in 2025. The expenditures of state budget institutions are also increasing rapidly. The expenditures of state budget institutions this year will increase by more than a tenth, to 13.2 billion euros, mainly due to the state's crisis mitigation measures, social benefits, the use of European Union support and expenditures related to old-age

pensions. The European Union will cover about 10% of Estonia's state budget expenditure in the coming years, including nearly a third of the investment expenditure (see Table 2).

12. For the Estonian Health Insurance Fund, the year 2020 was strongly affected by the coronavirus crisis. The receipt of social tax decreased and crisis-related expenditures increased. The suspension of scheduled treatment during the emergency situation did save costs, but there is a risk that the costs will increase in the future. Last autumn, the state decided to compensate the Estonian Health Insurance Fund for part of the decrease in the receipt of social tax, so the Estonian Health Insurance Fund ended 2020 with a surplus of approximately 17 million euros.

**The September forecast for the tax receipts of 2021 changed compared to April:**

natural person income tax +104 million euros;  
 legal person income tax +93 million euros;  
 social tax +105 million euros;  
 value added tax +180 million euros;  
 excise duties +42 million euros;  
 customs duty +6 million euros;  
 heavy goods vehicle tax +0 euros;  
 gambling tax +0 euros.

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TOTAL +530 million euros

Source: Ministry of Finance

**Table 2. A selection of Estonia's state finance indicators in 2019–2020 and the forecast for 2021–2025**

	2019	2020	2021	2022	2023	2024	2025
State budget revenue (bln euros)*	11.0	10.9	12.4	13.1	13.9	14.5	15.1
Expenditures of state budget institutions (bln euros)	11.0	11.9	13.2	13.5	14.1	14.5	14.7
Nominal fiscal position of the government sector (% of the GDP)	0.1	-5.0	-3.3	-1.8	-1.1	-0.4	0.3
Liquid financial assets of the general government sector (bln euros)	2.2	3.3	2.5	2.6	2.7	2.7	2.7
General government sector debt (bln euros)	2.4	5.0	5.3	6.2	6.8	6.8	6.7

\* State budget revenue = taxes and social security contributions + transferable revenue + non-tax revenue.

Source: summer 2021 economic forecast of the Ministry of Finance

**New forecast of the Ministry of Finance: the budget for 2025 in surplus instead of deficit**

**Nominal budgetary position of the general government sector** — the balance of the total revenue and total expenditure of the central government, local authorities, the health insurance fund and the unemployment insurance fund in the general government sector.

In addition to the nominal budgetary position of the general government sector, the structural budgetary position indicator is also used to assess the state of public finances. The structural budgetary position is calculated by removing from the nominal position, in addition to the effects of the economic cycle, any one-off and temporary factors that could distort the budgetary position.

13. In 2020, the Estonian Unemployment Insurance Fund was in deficit by 327 million euros. The amount of 256 million euros was used as wage compensation to maintain employment, and unemployment insurance benefits were also spent more on than the usual.

14. The receipts into the state treasury in 2021 in amounts higher than expected will also have a positive effect on the balance between state revenues and expenditures, i.e. on budget balance. The Ministry of Finance expects this year's **government sector's budget to nominally remain** in deficit by approximately a billion euros (3.3% of the GDP), but the deficit in such case would be nearly 700 million smaller than expected in April 2021 when the state budget strategy for 2022–2025 was prepared.

15. According to the summer forecast of the Ministry of Finance, the budget deficit will be smaller throughout the forecast period, and instead of a deficit of 1.7%, government revenue in 2025 should exceed expenditures (0.3% of the GDP). In spring this year, it was thought that the budget would not reach a balance in the foreseeable future.

16. According to the Ministry of Finance, the better state of public finances also means that the state will not have to use (if the current fiscal policy of the government continues) as many reserves or loans to finance

its activities as estimated in the spring of 2021 when preparing the state budget strategy. According to a recent estimate by the Ministry, the government sector's debt-to-GDP ratio is expected to remain broadly unchanged at around 18% between 2021 and 2025.

17. In the spring, public debt was estimated to reach almost 30% of the GDP by 2025. The forecast for the general government's reserves was not changed significantly compared to the spring: the government has about 2.5 billion euros in liquid financial assets.

### The key question is how Estonia is going to cope with the new outbreak

18. **In summary, the National Audit Office finds that** the Estonian economy has withstood the COVID-19 crisis well so far, and this will hopefully mean higher revenues for the state than expected six months ago. However, Estonia has entered a new wave of disease outbreaks and the virus is spreading quickly again. Rising infection rates have forced restrictions on or suspension of scheduled treatment in hospitals and raised the question of how long the healthcare system is going to be able to withstand.

In connection with the pandemic, the National Audit Office has sought answers to the following questions:

1. What was Estonia's (health care) preparedness at the outbreak of the COVID-19 pandemic?
2. How have crisis management, cooperation between public authorities and informing the public in the crisis situation worked?
3. How is vaccination of the population organised as one of the most important antiviral measures?
4. How were companies supported in coping with the effects of the pandemic?
5. How did the state support local governments in the viral crisis?

19. In this overview, the National Audit Office has summarised its observations from the last two years on the government's response to the pandemic, and selected five lessons that need to be addressed, among other things, in order to deal with the new waves of COVID-19 or other similar crises more efficiently.

## Lesson 1. Crisis preparedness requires real action – affordable acquisition of reserves and building a response capacity

20. The first prerequisite for dealing with crises is an adequate assessment of the threats that a country may face. In addition, there is a need for an honest analysis of the country's capacity to respond to emergencies and to take real steps to increase the preparedness. In particular, a sufficient number of people and resources must be ensured. In addition, the state must have a well-weighted plan, including the division of the agreed tasks for behaviour in a crisis situation, and the capacity to change the plan and behaviour according to the situation.

21. It appears to the National Audit Office that not all of these conditions have been met since the onset of the coronavirus crisis: The COVID-19 pandemic turned out to be an accident that really did warn ahead, but the danger signs and warnings were ignored. In the risk analysis of 2013 already, the Health Board assessed the probability of the occurrence and spread of an epidemic infectious disease as high and the consequences as very severe. An earlier analysis from 2011 included similar messages.

### Health Board 2018: the probability of an epidemic is high and the consequences would be severe, but Estonia is not prepared to cope

22. In 2017, the new Emergency Act entered into force, the purpose of which was, among other things, to initiate and push for the preparation of up-to-date risk analyses and the establishment of the state's operation stockpile, and to specify the tasks of the agencies participating in crisis management. The development of the implementing provisions of the Act

## Estonia entered the coronavirus crisis with scarce health care supplies

was delayed, as well as the risk assessments, but the Health Board's risk analyses were finally completed with the following message: a health crisis is likely, but neither the medical system nor the Health Board are ready for it.

23. The risk analysis of the health events prepared by the Health Board in June 2018 identifies, inter alia, the following alarming gaps in Estonia's material readiness and ability to respond to crises caused by the spread of infectious diseases:

- the country has practically no health care stockpile, including personal protective equipment. The existing stockpile is mostly obsolete and has not been renewed;
- hospitals and ambulances have personal protective equipment only for initial response to a (infectious disease) crisis;
- the capacity of ambulances and hospitals to treat dangerous infectious diseases is unknown;
- there is a lack of the required resources and equipment in the laboratories of health care institutions; no reference laboratories have been set up or people trained.

24. A year before the Health Board's analysis, a group of experts from the Government Office had proposed that health care providers should stockpile for 72 hours and that the state should have a health care stockpile for at least 2 months. This proposal, however, was neglected. So was the requirement provided in the Emergency Act, according to which the Government of the Republic should have approved the order for the establishment of the operation stockpile by 1 July 2018, i.e. by the time when the Health Board completed its risk analysis of health events.

25. The government was unable to make a decision and issue an order because the Minister of Health and Labour had not assembled the needs of the health care stockpile in the area of government, neither submitted the proposals to the government. So, the needs of other areas of government were also on hold. The reminder by the Minister of the Interior to the Minister of Health and Labour on 16 July 2018 did not yield results, either, and thus the government's order concerning the state's operation stockpile, including the health care stockpile, had not been brought into effect at the time of the onset of the coronavirus crisis.<sup>2</sup>

26. However, since the spring of 2020, the government has focused more on the issue of stockpiles. On 1 July 2021, AS Eesti Vedelkütusevaru Agentuur started out as the legal successor of AS Eesti Varude Keskus and is managing the stockpiling and storage of vital goods needed in emergency situations and taking care of the organisation of their commissioning.

27. Here, it is important to find an optimum solution for the stocks and not verge towards the other extreme after the shock caused by the lack of stocks in the initial stage of the coronavirus crisis. This means that stocks

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<sup>2</sup> In the course of preparing the overview, the Ministry of Social Affairs assured to the National Audit Office that an expert analysis ordered by the Health Board on the list and quantities of the health care stockpile and maintenance and rotation options will be completed in December 2021. Based on the analysis, the Ministry will establish the relevant conditions and implementing provisions with a regulation in spring 2022.

should not be piling up, and stockpiling should not be limited to the physical storage of something on storage shelves.

**The training exercises confirmed the opinion of the Health Board that a large-scale crisis would exceed their abilities**

28. The concerns with the stocks were only a part of the deficiencies that the Health Board had pointed out in its risk analysis before the coronavirus crisis. Responding to the audit prepared by the National Audit Office for emergencies<sup>3</sup>, the Health Board assessed that in the event of a long-term crisis, the Board is unable to man the crisis management structure. The Health Board was of the opinion that in the event of a crisis affecting the whole country, they would be overburdened with tasks far out of their capacity. The outbreak of the pandemic later testified that the Board's opinion was correct.

29. Issues with the capability of the Health Board were also confirmed in the course of the training exercises organised between 2015 and 2019. For example, an international medical exercise was held in April 2019, the evaluation report of which states that despite repeated reminders, the Health Board did not develop training goals for itself during the exercise planning stage, and it appeared that the Board was unaware of its role and responsibilities in the training exercises.

30. In September 2019, there was another cooperation training exercise of the institutions. It has been stated in the exercise report that the regulatory and supportive role of the Health Board was lacking. Following the exercise, the Health Board was also advised to establish a clear understanding of which emergency management centres will be set up, where they will be set up and how all authorities involved in tackling the situation will exchange information at all levels. However, the problem of ambiguity of coordination and responsibility in resolving health emergencies extends beyond the Health Board (read more in clauses 33–60 of the overview).

**Advance warnings will be useless if they are followed by inaction. The creation of a stockpile agency is to be welcomed, but it is only a part of the solution**

31. **In summary, the National Audit Office finds that** the state authorities were not ready for the outbreak of the pandemic. Years ago already (e.g. in 2013), the Health Board assessed the probability of the occurrence and spread of an epidemic infectious disease as high and the consequences as very severe. The Health Board came to similar conclusions in the risk analysis approved in June 2018. Regardless, the government, relevant ministers and public authorities did not listen to them, did not follow them and failed to take the steps required.

32. Estonia entered the coronavirus crisis with a very scarce supply of personal protective equipment. The capacity of the Health Board was also low and expectations to it unrealistic. The formation of state (medical) stocks has long been characterised by confusion and negligence. The establishment of the public limited company Eesti Varude Keskus will hopefully make it possible to create order in the field.

<sup>3</sup> <https://www.riigikontroll.ee/tabid/206/Audit/2467/Area/20/language/et-EE/Default.aspx>The state's activity upon preparing for emergencies endangering internal security National Audit Office, 2018.

## **Lesson 2. In the context of new outbreaks, the tasks of the government and public authorities must be clear and the messages must be comprehensible to the people.**

**The lack of stocks was added to by confusion over who should do what in the crisis**

33. COVID-19, which arrived in Estonia at the beginning of 2020, turned out to be a litmus test for the country's readiness and was supposed to show whether all the tasks given in the “peacetime”, the cooperation lines established and the decision-making processes work smoothly even in crisis conditions. As described above, Estonia's material readiness to tackle the crisis was not at all commendable in terms of (medical) stocks, and the spread of COVID-19 made it clear quickly.

34. However, the shortage of stocks was added to by confusion over which agency should do what in the crisis situation and who should communicate with the public and how: explain the situation, the plans and the decisions of the government.

### **The tasks and responsibilities of public authorities in responding to the coronavirus crisis have proved to be fragmented and unclear**

35. According to the Emergency Act, ministries organise crisis management in their area of government, but in the pre-crisis period, the Ministry of Social Affairs left the Health Board largely alone in this task.

**The Ministry of Social Affairs referred the responsibility to the Health Board, which could not have had the capacity to solve a nationwide crisis**

36. Responding to the audit of emergencies as completed by the National Audit Office in 2018<sup>4</sup>, the Ministry of Social Affairs found that the Health Board is almost entirely responsible for preparing for and solving health crisis situations. The Health Board, however, said that they would not be able to cope with a broader crisis because there were not enough people or money. The Ministry of Social Affairs basically left this unnoticed.

37. Thus, Estonia responded to the outbreak with crisis work organisation on paper, which did not really cover the people and resources needed.

**As the crisis deepened, the Ministry of Social Affairs and the Health Board turned out to be in need of help instead of being the helpers**

38. As the Ministry of Social Affairs (and the Health Board) was unable to play a coordinating role in solving the crisis, as required by law, the Government Office finally took over this task in practice.<sup>5</sup> This was an inevitable and reasonable development given the reality.

39. In July 2021, the government decided to bring the crisis management structure into line with the reality and instructed the State Secretary to set up a structure within the Government Office to manage the COVID-19 crisis situation transnationally and in cooperation with government agencies; to plan and coordinate the measures; to cooperate with regional

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<sup>4</sup> <https://www.riigikontroll.ee/tabid/206/Audit/2467/Area/20/language/et-EE/Default.aspx>. The state's activity upon preparing for emergencies endangering internal security\_National Audit Office, 2018

<sup>5</sup> Here, the National Audit Office refers to a non-emergency crisis period. During an emergency, according to the Emergency Act, the person in charge of the emergency situation is the Prime Minister and the coordinating tasks are the responsibility of the Government of the Republic and the Government Office.

crisis commissions; to assess the effects of the measures taken and prepare legislation of the Government of the Republic, etc.

**The government and the Government Office should be given a legal role in the strategic management of a crisis with significant national implications.**

40. In the opinion of the National Audit Office, the coordinating role of the Government Office is welcomed, but it should be specified in legislation. According to the regulations of the Government of the Republic issued on the basis of the Emergency Act, it is the Health Board's task is to manage the resolution of an emergency and the organisation of communication in the event of an epidemic. This is regardless of the scale of the epidemic – whether it is a local or national outbreak, a short-term or a long-term crisis.

41. However, in the case of a nationwide crisis with significant impact across areas of government, it is not conceivable that an institution or ministry of a narrow field would be able to solve the crisis at a strategic level. Therefore, the National Audit Office supports the intention to prepare the so-called Emergency Preparedness Act, which stipulates, among other things, that the Government of the Republic, supported by the Government Office, which forms the state crisis headquarters, will be the party solving a nationwide crisis at the strategic level.

42. The Government Office should also help coordinate situations where authorities resolving emergencies do not know whether and to which extent in other authorities or within the authority itself steps have been taken to alleviate the risks identified. This would reduce the risk that the authorities cannot fully account for their actual capabilities or gaps in capability when planning their work as well as when resolving an emergency.

43. With the help of the Government Office, it would also be possible to gather information on the similar needs of different responsible authorities and coordinate joint activities to ensure better preparedness for the crisis.

#### **Informing the public about government decisions, restrictions and instructions on what to do should be significantly more uniform and well-organised**

**Everyone wanted to share information, and the public was confused as to which guidelines would eventually be set**

44. At pivotal times, information about the government's intentions and decisions is highly welcomed and therefore, members of the government have had external pressure and an internal will arising from various considerations to disclose information about new restrictions or instructions as soon as possible. In addition, there have been situations where a scientific council set up to advise the government has shared its proposals with the public before presenting the proposals to the government.

45. In practice, this has led to a situation where the public thirsting for information has learned about government decisions at least three to four or five different times and in various ways during a week:

- from the scientific council through the media as their proposal (or as different views of the members of the board);
- from the cabinet meeting as an initial principled decision;

- from ministers on what was decided at cabinet meeting, through social media accounts;
- as an official government press release;
- finally, as official information on the relevant legislation adopted by the government.

**In order to explain the decisions to the people, the decisionmakers themselves need to uniformly understand whether and what was decided and why**

46. In the course of developing the restrictions and instructions, details may have been clarified that have changed the information on decisions issued at an earlier stage, or the initial intentions expressed earlier have had to be changed. There is a lot of information during the crisis, and fragments of information given at different stages at different times have brought about a situation where, after going through the decision-making process, the public is confused about which restrictions and instructions have finally been established and which not, and which have remained mere proposals.

**The information should be provided to people through official channels and when the government's decision is final.**

47. The National Audit Office finds that the precondition for avoiding this is that, first of all, the decision-makers themselves have a uniform understanding about what was decided. In addition, it is necessary to know whether something was decided at all, and, most importantly, why the decision was made in favour of one or another measure.

48. The main thing is that the public should receive information that is useful and brings clarity instead of confusion and questions. It is also important that information is provided in an understandable way and through reliable, that is, official channels. The instructions on what to do will be better followed if the instructions themselves as well as the need and reasons for their implementation are clear.

**The authorities implementing government decisions must be informed of the instructions before the public, as they must be able to explain the instructions immediately.**

49. When informing the public, it has often happened that when the government has announced its decisions (or planned decisions) – usually immediately after a cabinet meeting or a meeting of the Government of the Republic – individuals, entrepreneurs or institutions have contacted the responsible state or local authorities to get additional explanations, but the latter may have not necessarily been smarter in explaining the decisions than those asking the questions. This, however, has meant that many interpretations or just confusion may have arisen.

**Informing must bring clarity, not confusion, and a uniform administrative practice must be followed in implementing the rules.**

50. In addition to sharing public information, in a crisis situation, more attention must also be paid to informing the state and local authorities implementing the decisions, and their employees of the decisions and the desired way of their implementation. It is important to provide them with this information before the public is informed, so that the responsible authorities are prepared to answer the questions in detail. Only then will it be possible to ensure uniform administrative practices in imposing restrictions and issuing instructions.

**Cooperation between the government and researchers has contributed to coping with the viral crisis, but there have been times when the roles of the parties seem to have changed.**

51. The government must be commended for involving researchers in the decision-making process in the fight against coronavirus. The researchers, in turn, deserve credit for helping the state and the government. A scientific council advising the government is a good example of cooperation that leads to results. It is in the interaction between researchers and the government that helps make well-weighed and informed decisions that will bring the country out of the crisis the fastest and with the least damage.

**The government must be able to make well-considered and informed decisions**

52. Both sides have an important and clear role to play in the decision-making process and these roles should not be confused. However, there have been moments when it is not quite clear, upon observing, who decides whether to impose restrictions or change them.

53. The scientific council makes its proposals from a scientific point of view and cannot hide scientific arguments under the political suitability clause. In addition to scientific and medical arguments, the government needs to consider all possible consequences and the wider social and economic impact of the decision. The latter is not only a right of the Government of the Republic, but also an obligation and responsibility.

**The councils set up to advise the government could advise the government directly, without intermediaries**

54. Efforts must be made to avoid situations that happened during the first and second waves of the coronavirus where the government received information on the proposals on the restrictions and recommendations made by the scientific council convened to advise it, from the evening news. This made the government accountable to the public for the scientific council's proposals even before the members of the government themselves received information from the scientific council. This resulted in an unintended risk for the parties that the adviser could become a quasi-decisionmaker or a kind of a pressure group.

55. Members of the government must be able to make a well-weighed decision about the restrictions and rules. What facilitates this is if they receive information about the proposals of the scientific council set up to advise them, as a priority and directly from the council's representatives, with explanations, rather than through intermediaries.

**Confusion over government decisions and proposals of the scientific council should be avoided**

56. In the opinion of the National Audit Office, it would be beneficial to consider the option of announcing the decisions of the Government of the Republic and the proposals of the scientific council advising them at the same time. After that, both the members of the government and the scientific council would have the opportunity to comment and explain.

57. The materials submitted by the scientific council to the Government of the Republic should also be made public. This would help reduce communication issues and would allow the public to discuss the proposals of the scientific council and government decisions in a substantial and informed way.

58. The fact that the scientific council has not given recommendations to the government on one topic or another, or at one time or another, cannot justify the government not making the necessary decisions as it is the

government and not the scientific council that is responsible for management and decision-making in a crisis situation.

**59. In summary, the National Audit Office points out that** in preparing for crisis situations, the real capacity of authorities must be taken into account, and those who do not have the actual capacity or resources to manage the crisis must not be overburdened. Coherence and clarity are the keywords in tackling the spread of COVID-19 in crisis management, communication with the public and cooperation between public authorities.<sup>6</sup>

**60.** In the opinion of the National Audit Office, the coordinating role of the Government Office in settling the crisis covering the entire country may be welcomed, but it should also be more precisely fixed in legislation. Informing the public about government decisions, restrictions and instructions on what to do should be significantly more well-organised.

### **Lesson 3. Vaccination is what lives depend on: the state must be able to explain the need for vaccination to people, create the opportunities for it and lead the process**

**61.** Since the outbreak of the coronavirus pandemic, national governments have spent billions of euros and scientists and health experts have worked hard to develop a vaccine against the virus that keeps taking new forms. Vaccination appears to be the main measure contributed to in order to reduce cases and deaths, keep the society as restriction-free as possible, keep the education system open and return to a (more) normal economic and social life.

**Statistics: vaccination significantly reduces the risk of serious illness and death**

**62.** Health statistics say that vaccination saves lives and saves human health. In the new wave of the disease, which began spreading this autumn, an average of 60–70% of those infected have been unvaccinated or have not completed the vaccination course. Vaccination also helps reduce the risk of serious illness: Approximately 70–80% of the patients hospitalised with COVID have not been vaccinated. Of the patients requiring intensive care, about 75% have not been vaccinated. Nearly 79% of the patients who died in hospital between the beginning of July and the end of October this year were unvaccinated.<sup>7</sup>

**63.** Preparations for vaccination against COVID-19 in Estonia began in June 2020, when the Minister of Health and Labour proposed that the government sign an agreement between the European Commission and EU Member States authorising the Commission to enter into pre-purchase agreements with vaccine manufacturers. Predictions of COVID-19 vaccination target groups and their sizes were started the same month.

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<sup>6</sup> The bottlenecks in crisis management and in informing people were also pointed out by the Auditor General to the Government of the Republic and the Prime Minister Kaja Kallas in the letter sent on [1 October 2021](#).

<sup>7</sup> The data of the Health Board as of 1 November 2021.

64. In August 2020, the Minister of Health and Labour introduced to the government the information concerning vaccination, in particular the purchase of vaccines. The government decided to join the joint 'vaccine portfolio' of EU Member States, consisting of vaccines based on different technologies from different vaccine manufacturers, in order to spread the risks.

65. On the early morning of 26 December 2020, the first shipment of COVID-19 vaccines arrived in Estonia. Vaccination was started the next day in Ida-Virumaa, Tartu and Tallinn.

**Vaccination started out rapidly in Estonia at the beginning of 2021, but lost momentum in the spring: there were vaccines and people were interested, but no injections were organised**

66. In May 2021, Estonia was at the forefront of vaccination rates to other European countries, but after that started to lag behind. And all of this in a situation where people were interested in getting vaccinated, there were enough vaccines and there was a stockpile of vaccines in the country.

67. As of 3 November 2021, just over 70% of Estonian adults had been vaccinated against COVID-10 with at least one vaccine dose. 73% of those over 60 years of age had been vaccinated with at least one dose by that time. Of the entire population of Estonia, about 57% have completed their vaccination course and about 3% are still in the middle of the vaccination course<sup>8</sup> Estonia's vaccination rate is approximately 10% below the European Union average For example, about 50% of the population in Latvia have been fully vaccinated, 61% in Lithuania, 69% in Finland, 76% in Denmark and 66% in Sweden and Germany.<sup>9</sup>

68. There were vaccines, but they were not injected. In May 2021 already, the amount of unused vaccines exceeded at least 66,000 doses each week and in June, at least 80,000 doses each week.<sup>10</sup> The first signs that there may be unused doses piling up were seen in February and March already.

69. Mid-February 2021, the Auditor General expressed his concern to the Minister of Health and Labour that we may be facing a situation where the vaccine is starting to accumulate on the shelves and the ability to organise large-scale vaccinations is becoming a problem.

70. While in the spring one of the goals was to reduce supply risks while maintaining the stocks and to keep the stocks of the second dose of the vaccine at least one week in advance, the number of unused doses significantly exceeded the need for the second dose the following week back then already. The number of vaccine doses that arrived in Estonia but were not used kept increasing, reaching more than 182,000 doses by 1 July 2021. This was added to by the unused doses of the AstraZeneca vaccine.

<sup>8</sup> View vaccination rates since the beginning of vaccination and the current status at <https://vaksineeri.ee/covid-19/vaksineerimine-eestis/>.

<sup>9</sup> European Centre for Disease Prevention and Control (ECDC), 1 November 2021.

<sup>10</sup> Unused doses of the AstraZeneca vaccine are also added to these figures.

**Vaccination rates of the Estonian population are significantly lower than the average in the European Union Member States**

**From early spring 2021, the shortage of vaccines could not have been a major barrier to vaccination**

### The vaccination targets aimed at achieving a specific level of vaccination coverage have not been met

71. In the opinion of the National Audit Office, vaccination was not so much slowed down due to the shortage of vaccines or the lack of interest by people, but rather due to weak coordination, poor organisation and the lack of a specific action plan.

72. The overall targets of vaccination against COVID-19 have largely been the same throughout the first version of the national vaccination plan. The overall targets have been to reduce the number of COVID-19 cases and deaths, protect the most vulnerable Estonian people, reduce the spread of coronavirus, decrease the burden on the health system and the economy and keep the society as open as possible. To some extent, the emphases of these targets have changed over time.

73. In addition to the general targets, there were specific targets for vaccination coverage in each vaccination plan. The exception was the vaccination plan of 14 December 2020, which did not set specific targets because at that time there was still a great deal of uncertainty and lack of knowledge about the arrival of the vaccine doses in Estonia.

74. The achievement of the targets set out in the vaccination plans is characterised by the fact that only the targets related to the start of vaccination have been achieved, but no target concerning vaccination coverage (see Table 3) has been achieved by the deadline set (with one exception<sup>11</sup>).

**Table 3. Achievement of the 2021 vaccination coverage targets**

Targets	Implementation
<b>19 January 2021 vaccination plan</b>	
Make vaccination available to all employees of health care institutions and the employees and residents of social welfare institutions by the end of February	ACHIEVED
Make vaccination available to all risk groups by the end of April	ACHIEVED
Make vaccination available to all from May	ACHIEVED
Achieve at least 50% [vaccination] coverage in the adult population by the end of October	ACHIEVED
<b>20 April 2021 vaccination plan</b>	
From May 2021, make vaccination gradually available for all who wish to vaccinate, according to the following age groups: 60–69; 50–59; 16–49	ACHIEVED
Make at least one dose of vaccination available to all risk groups by the end of May 2021	ACHIEVED
Make at least one dose of vaccination available to all who wish to vaccinate, by the end of June 2021	ACHIEVED
Achieve 70% coverage in people aged over 70 with at least one dose of vaccination by the end of April 2021	NOT ACHIEVED by the end of April, but was achieved in August 2021

<sup>11</sup> The target of the 19 January 2021 vaccination plan was to achieve the target of having at least 50% of adults vaccinated by the end of October.

Achieve at least 70% [vaccination] coverage in the adult population by autumn 2021	Coverage with one dose was achieved by 3 November 2021; the 70% coverage with a complete vaccination schedule has not been achieved
<b>28 July 2021 vaccination plan</b>	
Achieve 70% coverage in young people (16–17 years) vaccinated with at least one dose by 31 October 2021	NOT ACHIEVED as of 3 November
Provide everyone with the opportunity to be vaccinated in their county of residence within a week	ACHIEVED
Achieve 70% coverage in those vaccinated with at least one dose in the Estonian adult population by 22 September 2021, which requires a weekly addition of at least 20,000 people	NOT ACHIEVED Not by September 2021, but by 3 November
Achieve 70% full vaccination coverage among the adult population of Estonia by 31 October 2021	NOT ACHIEVED as of 3 November
Achieve at least 80% coverage with at least one dose among people aged 60+ by 30 November 2021	DEADLINE NOT ARRIVED YET (at the current vaccination speed, very unlikely to be achieved)

Source: Based on documents of the Ministry of Social Affairs on 3 November 2021, spelling of the targets unchanged.

**75.** Vaccination targets have not been met, partly due to the fact that the various flexible options to increase the number of people vaccinated have not been used in time or have been implemented with an unnecessary delay.

**76.** In several memoranda<sup>12</sup>, the National Audit Office has emphasised, among other things, that the organisation of vaccination should be as large-scale and convenient as possible, and also suitable for people who cannot visit a family health centre hospital, vaccination centre, etc. due to old age, illness or mobility difficulties.

**77.** In the middle of the summer, when the pace of vaccination had slowed down, the National Audit Office pointed out that more opportunities should be created for people close to their homes and the availability of vaccination must be increased as it was delayed at that time.

**78.** At that time, the National Audit Office emphasised that in addition to vaccination in shopping centres and central squares in towns, a different approach should have been taken in smaller places: to run vaccination buses around rural areas, villages and settlements, to vaccinate on the spot, not to expect people to travel to larger centres. Older people, who have poorer health and whose illness could have the worst consequences, often live in rural areas.

<sup>12</sup> Letters by the Auditor General to the Minister of Health and Labour on 7 April 2021 and 30 June 2021; letter on vaccination issues by the Auditor General to the Prime Minister on 27 July 2021. The issues in crisis management are discussed in more detail in the Auditor General's letter to the Prime Minister on 1 October 2021.

**There have been periods where Estonia did not have an up-to-date publicly disclosed vaccination plan at all**

79. In order to find and implement flexible options, the private sector should also have been involved, whose experience and ideas could have expanded vaccination opportunities.

80. Vaccination plans have been made public, but have not been approved by the Minister of Health and Labour. There have been periods where Estonia did not have an up-to-date publicly disclosed vaccination plan at all

81. Since the arrival of the first vaccines in Estonia in December 2020, vaccination has been organised in a hectic manner. The Ministry of Social Affairs has presented various vaccination plans or their working drafts to the public and the government, but has not ensured the existence of a valid vaccination plan throughout the process.

82. The vaccination plan should clearly state the vaccination targets, those responsible and the activities to achieve the targets. There have been periods when there was no plan at all (e.g. 1–19 April 2021 and 1–27 July 2021).

83. The National Audit Office finds that the existence of a valid vaccination plan and its operational updating depending on the changes in the situation must be ensured throughout the entire COVID-19 vaccination process. Also, any new vaccination plan should be agreed on and approved before the old plan expires.

84. It is not about having a formal paper, but about the need to provide all parties concerned with a clear basis on which to work and to assess the results achieved. The government itself has officially declared that the vaccination plan is the document that serves as the basis for the actual vaccinations.<sup>13</sup>

**To ensure successful vaccination, the causes of the setbacks must be known and the knowledge used**

85. It is difficult to carry out vaccination without setting appropriate interim targets and if the descriptions of activities are vague. Several of the major targets set in the various vaccination plans have not been met (for example, the proportion of vaccinated adults; the proportion of people over the age of 60 who have been vaccinated). Setting interim targets would help make progress in vaccination. A vaccination plan cannot be a management document if it does not specify the means to achieve the targets, in addition to setting out the targets and general principles of vaccination.

**The government needs up-to-date information on the progress in vaccination to make decisions**

86. The lack of information needed to manage the vaccination process does not contribute to achieving the targets. The Minister of Health and Labour has presented an overview of COVID-19 vaccinations at each weekly cabinet meeting. However, until the end of July, these overviews did not contain the most important information: information on the

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<sup>13</sup> On 7 April 2021 already, the National Audit Office has drawn the attention of the Ministry of Social Affairs to the fact that it is unclear who has approved the vaccination plans, when and under what legislation. In his letter of 7 May 2021, the Minister of Health and Labour explained that the COVID-19 vaccination plan is a code of conduct developed on the basis of the Communicable Diseases Prevention and Control Act. According to the Act, in case of an epidemic, the minister responsible for the area (Minister of Health and Labour) shall have the right to establish the appropriate code of conduct for the immunisation of persons at risk. The Act stipulates that the code of conduct is established by the Minister of Health and Labour.

achievement of the targets agreed in the vaccination plan. The government only started to have a more comprehensive informative overview in the autumn of 2021.

87. The Auditor General also called attention to the shortcomings in the organisation of vaccination described above in his letter of 27 July 2021 to the Prime Minister.<sup>14</sup> Prime Minister Kaja Kallas stated in the media that the organisation of vaccination has raised serious questions before, which is why she has demanded action from the Ministry of Social Affairs.

“Today, in the light of the National Audit Office's analysis, I demanded substantive answers and specific deadlines for resolving problems from the Minister of Health and Labour Tanel Kiik, who is responsible for vaccination, during our two-hour meeting. The vaccines on the shelves must get to where they are wanted and where there is a shortage of vaccines. Vaccinated people help keep Estonia open“

– Prime Minister Kaja Kallas on the organisation of vaccination (Estonian Public Broadcasting, 27 July 2021) –

88. At the end of July, the Ministry of Social Affairs published an updated vaccination plan<sup>15</sup> for the second half of 2021, but the Minister of Health and Labour has not yet officially approved it. The plan is rather declarative: it sets out the targets and principles of vaccination. There was no implementation plan for the plan. The document in its current form does not explain how the population will be vaccinated at the level needed to return to a more normal way of life.

89. During the preparation of this overview, the Ministry of Social Affairs confirmed to the National Audit Office that at the meeting of the COVID-19 steering group of the Ministry on 12 October 2021, the implementation plan of the vaccination plan was approved.

90. **In summary, the National Audit Office emphasises** that the most important thing in managing the crisis and in vaccination is clear management, which is the responsibility of the Ministry of Social Affairs. Also, feedback must be gathered to see what works and what does not.

## **Lesson 4. Supporting enterprises in a crisis must be quick, justified, and transparent, regardless of the minister or ministry that so to say distributes the money**

91. National restrictions to prevent the spread of COVID-19 have a significant impact on the economic activity of enterprises and thus on people's incomes. Therefore, in the winter/spring of 2020, governments began to develop mitigation measures to help enterprises, people and the healthcare system.

<sup>14</sup> <https://www.riigikontroll.ee/Suhtedavalikkusega/Riigikontrolliblogi/tabid/310/ItemId/1327/amid/920/language/et-EE/Default.aspx>.

<sup>15</sup> [https://s3.documentcloud.org/documents/21019686/covid-19\\_vaktsineerimine\\_uuendus\\_280721.pdf](https://s3.documentcloud.org/documents/21019686/covid-19_vaktsineerimine_uuendus_280721.pdf).

## The state has apparently provided more than a billion euros in emergency support to entrepreneurs

92. It is difficult to give an accurate overview of the measures implemented by the Estonian state and the funds spent on them as it is not reported separately in the state's economic or financial documents. It would probably also be difficult to say which of the state's activities are directly or exceptionally related to smoothing the effects of the virus, and which state expenditures are of the so-called usual nature of supporting the economy.<sup>16</sup>

93. It is known that in April 2020, the Riigikogu adopted the supplementary budget for 2020, the explanatory memorandum of which states that “the total impact of the package of measures planned to assist Estonian workers and enterprises is at least 2 billion euros”. According to the website of the Ministry of Finance, approximately 2.4 billion euros were allocated for support measures with the supplementary budget in 2020.<sup>17</sup>

94. One year later, in April 2021, the next supplementary budget was adopted, the explanatory memorandum of which states that 641 million euros was planned “to assist the Estonian population, enterprises, the society and the health care system”. According to the Ministry of Finance, approximately 253 million of it was allocated for the support measures.<sup>18</sup>

95. It should be noted that these amounts include, in addition to the measures targeted at enterprises, other support as well, such as crisis subsidies granted to local governments (read more from clause 115 of the overview), extraordinary allocations for the education and health care system, etc.

96. It must also be kept in mind that, in addition to the funds allocated (but not necessarily paid out, used up) by the supplementary budget, there are other funds in the state budget that actually help alleviate the crisis and come out of the crisis, but which are not explicitly defined as crisis relief.

97. The state has implemented the measures aimed at supporting the coping of enterprises, their liquidity, investment capacity and employee retention mainly through the Estonian Unemployment Insurance Fund (for example, the labour market support measure); KredEx Foundation (guarantees and loans); the Rural Development Foundation (MES; primarily guarantees and loans to rural economy enterprises) and Enterprise Estonia (EAS; primarily subsidies to the tourism sector), but also through tax debt rescheduling, reduction of fuel excise duty, etc.<sup>19</sup>

**The state has helped entrepreneurs maintain their employees and liquidity**

<sup>16</sup> The National Audit Office has also not considered it practical to burden the ministries with a single request, considering how difficult it may be to reply and to compile the data.

<sup>17</sup> <https://www.rahandusministeerium.ee/et/lisaeeelarve-0>.

<sup>18</sup> <https://www.rahandusministeerium.ee/et/lisaeeelarve-0>.

<sup>19</sup> The Ministry of Culture has also granted crisis support to entrepreneurs and the Ministry of Education and Research to entrepreneurs engaged in hobby education.

### The government has had time since the first wave of the crisis to think more about who to grant the support, why and how

**A positive example of business support: wage compensation – necessary and on time**

98. Based on the data submitted to it, the National Audit Office can conclude<sup>20</sup> that in 2020, slightly more than 600 million euros were granted or borrowed as emergency crisis aid through the Estonian Unemployment Insurance Fund, KredEx and Enterprise Estonia generally and mainly made it to those enterprises whose sales turnover had decreased, that is, the intended recipients of the funds.

99. Of the activities, accommodation and catering enterprises received the most support. Thus, based on the decline in turnover, state aid reached those who had been hit harder by the crisis. In addition, a positive thing that should be pointed out separately is the wage compensation implemented through the Unemployment Insurance Fund. The need for and amount of the compensation were determined in cooperation with market participants and the implementation was operative.

100. In addition to the successes, the National Audit Office believes that the experience so far also offers the government several important lessons to learn to support enterprises in the future.

**In a crisis, one of the tasks of the state is to provide entrepreneurs with as accurate information as possible about what the state is doing to help them**

101. A way must be found for state support to be timely but also well thought out. In crises, one of the tasks of the government is to reduce business uncertainty. If the state decides to support enterprises in a crisis, in order to have the greatest impact and create a sense of security in enterprises, the most precise possible conditions for the proposed support measures should be made public at the same time as the restrictions are imposed. Such publication of the conditions also helps avoid situations where enterprises are already counting on the enterprise support measure, but the terms and conditions reveal that they are not eligible. There were, unfortunately, situations like that.

102. At the same time, it is important for the government to provide entrepreneurs with the support they need to deal with the crisis, which the private sector itself is not in a better position to deal with. This requires active cooperation with market participants, including banks and market experts, as well as with representative organisations of enterprises.<sup>21</sup>

**State aid arrives faster if the procedures and technical criteria for support are thought through earlier**

103. The criteria for awarding support must be clear: fast feet and quick fingers cannot be the touchstone. The criteria must be comprehensible to the applicant and justified by the state. The justifications must be worded unambiguously at the time of establishing the conditions already, not

<sup>20</sup> In the reports published between September 2020 and June 2021, the National Audit Office analysed the issues related to the design and implementation of business support measures, primarily in the areas of government of the Ministry of Economic Affairs and Communications, the Ministry of Social Affairs and the Ministry of Rural Affairs.

<sup>21</sup> Madis Müller, the Governor of Eesti Pank, emphasised similar principles when presenting Eesti Pank's 2020 report to the Riigikogu: "In advising the government, Eesti Pank's main advice to alleviate the crisis was to ensure that the state aid would be targeted, quick and temporary, and targeted at those most affected by the crisis." (3 June 2021). Commenting on this review, the Ministry of Economic Affairs and Communications confirmed to the National Audit Office that close co-operation is done with professional associations in the tourism sector and the representatives of merchants in planning the crisis measures.

after it. This helps understand the shortcomings of a criterion when it is still possible to make changes to the conditions.

104. In order to solve the crisis, it is not appropriate for support measures to lay down conditions under which the enterprises that submit their applications the quickest will receive the support. The quickness criterion is inappropriate for both the so-called survival grants for enterprises and for various development grants (such as the support measure for the business model of tourism enterprises during the second wave of the crisis).<sup>22</sup>

105. The first come, first served principle is indeed an easy way to stay within the limited budget of a measure, but it is not appropriate for fair competition and the objective of the support.

**Untargeted distribution of funds would mean giving a competitive advantage or unnecessarily taking the place of credit institutions**

106. It is important that the Riigikogu and the government clearly state what they want to achieve with the allocated funds and then later explain to the public whether the desired target was achieved or not. The National Audit Office's analyses concerning MES and KredEx showed that the state often grants crisis support for vague purposes. When approving the state budget, the Riigikogu has not determined clearly enough what the funds should be used for, or the request by the Riigikogu has been interpreted extremely loosely.

107. For example, instead of alleviating short-term liquidity problems, MES started to provide longer-term loans to enterprises, including to enterprises whose turnover had not been significantly affected by the crisis. This behaviour, however, led to the risk that if the crisis had actually worsened and additional funds had been needed to address short-term liquidity issues, the funds would no longer have been available because they had already been allocated to investment loans. The use of money alone cannot be a success criterion for reasonable support.

**Unclear goals, opaque decision-making and big money must not meet**

108. The provision of crisis aid and the respective decision-making process must be transparent and involving as little bureaucracy as possible. When designing support schemes, efforts should be made to minimise the costs incurred by an entrepreneur in applying for support. The public should also be explained in more detail who is eligible for the support and what type and from which institution as the target groups sometimes overlap (for example, in the case of KredEx and MES).

109. The process of deciding on the applications must also be transparent with regard to the measures where the government is the final decision-maker. It must be clear what the criteria for granting or not granting support are in order not to repeat what happened with KredEx's measure of loans for projects of national importance.<sup>23</sup> The procedure for processing the applications at the institutions distributing the funds must be more precise and held as agreed. Some discretion is necessary, but the application of different rules to different applicants must not be allowed.

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<sup>22</sup> Although Enterprise Estonia had experience with an application race in the spring of 2020, which received negative feedback, a new race for entrepreneurs struggling in the crisis was still organised in January 2021. The foundation justified this by saying that the procedures of an existing and operational measure were followed.

<sup>23</sup> Read more <https://www.riigikontroll.ee/tabid/206/Audit/2517/Area/4/language/et-EE/Default.aspx>.

110. More centralised planning of the support measures (and implementation through a "single channel") should be considered. The support system for entrepreneurs has been too fragmented during the crisis. In the future, it would be reasonable for the Ministry of Economic Affairs and Communications to bring together the representatives of the ministries responsible for the various business sectors into one crisis group that will develop a comprehensive package of support measures.

111. More centralised planning of the measures helps avoid situations where, on the one hand, support is partially duplicated (for example, some crisis measures of KredEx and the Rural Development Foundation), but on the other hand, important groups of entrepreneurs may be left without the support. Also, if the system is fragmented, different support conditions arise, not so much due to the differences between enterprises, but due to the fact that enterprises fall into the administrative area of different ministries.

112. In a crisis, it is important for the government to have a uniform economic policy and for enterprises to be treated the same regardless of the area of government of the ministry under which the enterprise's field of activity happens to fall.

113. **In summary, the National Audit Office** finds that the challenge for the state is to be a partner to entrepreneurs that is predictable in a good sense, that listens and justifies its choices, both in the conditions of a pandemic as well as after the crisis caused by the spread of the infectious disease. Drawing dividing lines in the economy – that are not actually there – based on the areas of government of the ministries should not be done.

114. The support policy must be comprehensive, the rules and principles equally transparent and comprehensible even when state aid is curated by different ministers and ministries. The more centralised planning of the support measures, for example, under the coordination of the Ministry of Economic Affairs and Communications, and implementation through a single channel could be considered.

## **Lesson 5. It is important to predict the impact of the crisis on local governments, but the support should be granted according to the needs of each local government**

115. The COVID-19 pandemic that reached Estonia in the winter of 2020 not only worsened the livelihoods of people and enterprises, but also raised the question of how much less revenue local governments will be receiving and how they will cope.

### **In the spring of 2020, it was feared that the crisis would eat up a tenth of local government revenues**

116. In April 2020, the Ministry of Finance forecast that the tax revenues of local governments would be almost 200 million lower in 2020 than was expected in the autumn of 2019. Based on this information, the Riigikogu decided to allocate, with the supplementary budget for 2020, a total of 135.8 million euros of crisis support to local governments. In 2021, the state allocated additional 16 million euros to local governments

**In the case of subsidies, it would be reasonable to avoid drawing dividing lines in the economy that are not actually there**

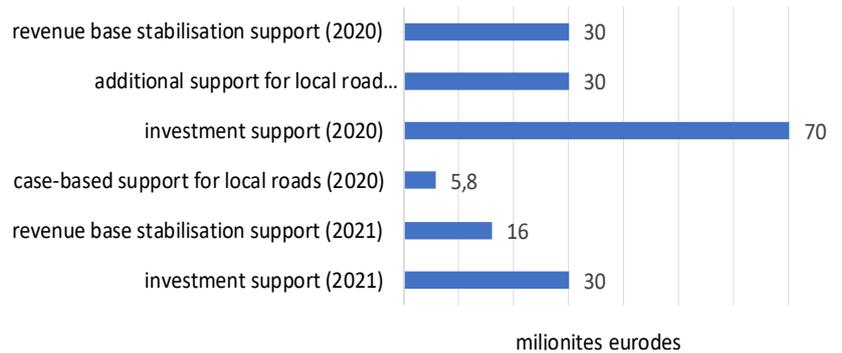
to cover the decline in revenues, and the crisis costs, and 30 million euros as investment support (see Figure 1).

**By supporting local governments, the state also wanted to revive the economy**

117. The allocations served two main goals:

- general stabilisation of the revenue base of local governments and compensation for the additional costs incurred;
- reviving the economy with investment support.

**Figure 1. Major support granted to local governments from the state budget to mitigate the impact of COVID in the period 2020–2021 (in million euros)**



Source: National Audit Office

118. Unlike the entrepreneurs of whom those who had been hit harder by the crisis were supposed to receive the support, the support was granted to local governments in a proportional manner, as a whole, and no particular distinction was made on the basis of the effects of the crisis.<sup>24</sup>

119. Revenue stabilisation support of 30 million euros and general road maintenance support of 30 million euros were transferred to local governments already at the beginning of May 2020, i.e. approximately 1.5 months after the onset of the crisis. In both measures, the support money was mainly distributed proportionally, based on the number of inhabitants or the length of the roads, for example (except for the case-based support for local roads).

120. As an alternative to the revenue stabilisation support measure, the government also considered the option of anticipating the real impact of the crisis and intervening according to local governments on a needs basis (as was the case during the global financial crisis in 2009 and 2010). However, as there was a lot of uncertainty about the effects of the crisis, the government decided to bring the subsidy to local governments quickly and to send an early message that the state will not leave local governments in trouble and that they do not need to make big budget cuts.

**Contrary to forecasts, the tax revenues of local governments increased in 2020**

**In the crisis year 2020, the income tax receipts of almost all local governments increased**

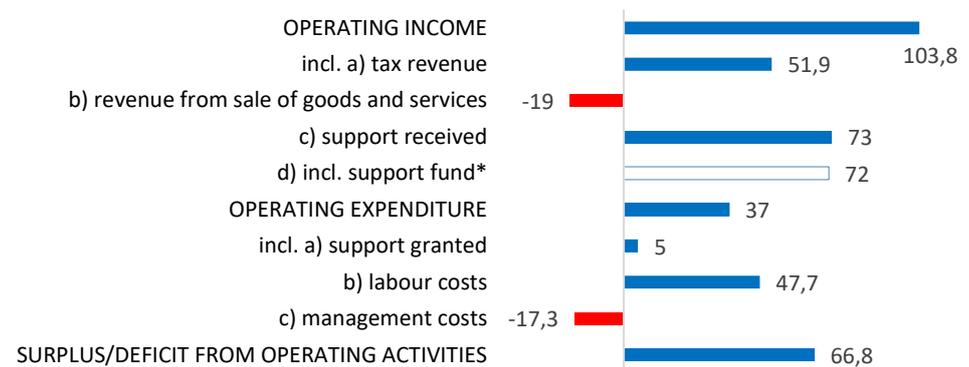
121. Contrary to the forecasts made by the Ministry of Finance in the spring of 2020, the negative impact of the crisis on the revenues of local governments was not significant in 2020, and instead, their tax revenues increased. Compared to 2019, local government tax revenues increased

<sup>24</sup> Only the local governments of Ida-Virumaa had a higher coefficient in 2021.

by approximately 52 million euros or 4% (see Figure 2). Revenue from personal income tax increased in 71 out of 79 local governments.

122. The only decrease in local government operating income was revenue from sale of goods and services (see Figure 2). This was mainly due to the fact that various fees related to the organisation of education, culture and leisure were held off because schools, clubs, etc. did not operate as usual. For example, revenue from kindergarten place fees decreased by 4 million euros and from catering by 2 million euros. In 2020, revenue from sale of goods and services decreased in a total of 61 local governments out of 79.

**Figure 2. Change in local government operating revenue, expenditure and surplus/deficit in 2020 compared to 2019 (in million euros)**



\* Incl. revenue base stabilisation support of 30 million as a COVID measure and additional road management support of 30 million euros.

Source: the National Audit Office according to <https://riigiraha.fin.ee/>

### The crisis has also reduced some types of local government spending

123. It should be noted that together with the sales revenue, the costs of the same services also decreased. For example, a year earlier, about 8.5 million euros more was spent to organise events. The total economic costs of local governments in 2020 were almost 17.3 million lower than in 2019 (see Figure 2) and decreased in 53 out of 79 local governments. Of the operating expenses, personnel expenses increased (by approximately 48 million euros), which is mainly related to the increase in salaries of education workers.

### In 2021, the increase in local government tax revenues has continued

124. At the same time, the increase in the tax revenues of local governments has continued. As of September 2021, the state has supported local governments in the crisis caused by COVID with a total of approximately 182 million euros.

### Most local governments would have been able to cope without state crisis aid; the support would have needed more precise targeting

125. Looking back, it seems that in 2020, local governments would have been able to cope without additional state support. When planning the support funds in the spring of 2020, it was probably difficult to predict the effects of the crisis, but the local governments that really needed the support should have been helped out. Also, given the experience from 2020 and the solid general financial position of local governments, it is questionable how justified it was to continue with similar support measures in 2021.

**Reviving the economy through local government support was not the best way to achieve the goal**

126. In both years, the aim of local government investment support has also been to revive the economy in the conditions of the crisis. The government found that since there were already plans to direct funds to the economy to alleviate the effects of the crisis, this could partly be done through local government budgets. It was hoped that this would have a more regionally balanced impact.

127. Local government investments as a share of the GDP have also increased somewhat during the crisis, but not significantly. There are probably local governments that have tried to replace their contribution to the sources for covering investments with public money, but in the big picture, investment support has been several times smaller than the general investment volume of local governments and accordingly the expected impact of the support on the economy.

128. For example, from the second quarter of 2020 to the second quarter of 2021, fixed assets were acquired in local governments for 463 million euros. Investment support in 2020, which reached the economy largely through local governments only in 2021, was more than 6 times smaller than this.

**Slightly more than 10% of state investment support to local governments reached the economy in 2020**

129. In the opinion of the National Audit Office, the subsidies allocated to local governments for economic recovery in 2020 did not fulfill their goal, as only a little more than 10% of this money reached the economy in 2020. The main reason is a condition which stipulated that the support could only be granted for previously unplanned investments. The process of applying for the support was also rather bureaucratic.

130. **In summary, the NAO finds that** the support intended to assist local governments was granted without taking into account the impact of the crisis on the specific local government, and the investment support intended for economic recovery did not fulfill its purpose because its arrival to the economy was delayed. It is understandable that the impact of the crisis on local governments is difficult to predict, but efforts should be made to ensure that the support is paid to local governments precisely in view of their need for assistance.