Appropriation to the Estonian Chamber of Agriculture and Commerce

Executive summary

The SAO audited the use of funds allocated from the state budget to the Estonian Chamber of Agriculture and Commerce, which is a non-profit association bringing together agricultural producers. The audit focused on the justification of the appropriation, the purposefulness and economy of its use and its connection with public interests.

Both in 2002 and 2003 a designated allocation was made for the Chamber in the state budget. Different projects were financed, like the collection and dissemination of agricultural market and price information, the organisation of participation in food fairs abroad, the award of the label Approved Estonian Taste, the representation of agricultural organisations in Brussels and the promotion of vocational education in agriculture.

Main findings

- The SAO finds that the Ministry of Agriculture has not given enough consideration to the allocation of funds to the Chamber of Agriculture and Commerce.

- A number of activities – like participation in fairs, organisation of training courses, establishment of commercial associations – could have been implemented by other means. These activities are supposed to be supported from governmental development aid granted to producers.

- Some of the projects financed from the appropriation can be classified as public aid. The provision of public aid should be strictly monitored, since it may distort competition – therefore, authorisation from the Minister of Finance should have been requested. This had not been done.

- The decision-makers planned the appropriations in the state budget without having an idea of the own revenue generated by the projects. It turned out that in some cases the own revenue of the Chamber available for covering the costs of the project was almost one-and-a-half times bigger compared to that indicated in the application.

- The use of the appropriation gave rise to considerable problems.

- The Chamber applied cost accounting where the expenses made from the appropriation had not been separated from those made from own revenue, so it was impossible to check these.

- The costs broken down by projects were not adequate, since the Chamber did not distribute all expenditure between projects as accrued. The Chamber covered some of the expenditure on hardware and software, office equipment, assignments and advertising on the basis of the coefficient set for the project, whereby the value of this coefficient depended on the share of project-related work in the relevant month. This did not ensure the use of the appropriation for the purpose it was allocated and the donor of funds did not receive accurate information on the actual expenses of the project.

- The indirect expenses of some projects financed from the appropriation were disproportionately large, amounting to as much as one half of the project's budget. The large share of indirect expenses allowed using the appropriation mostly for managing the Chamber, which was not the purpose of the appropriation.

- The appropriation was used for supporting the member organisations of the Chamber. More than 50 organisations used the appropriation as a result of the repeated redistribution of funds. The organisations benefiting from the appropriation used the money for acquiring equipment for themselves and for improving the premises; money was also given for activities, which had already been supported or which were not carried out at all. In one case a Member of the Management Board of a member organisation had purchased services from himself or herself on account of the appropriation. Indirect supporting caused the diffusion of control and the non-transparency of the system. The agreement governing the use of the appropriation did not provide for the redistribution of funds to third parties and the connection between this practice

and the performance of public functions of the Chamber was not clear. The redistribution gave rise to parallel payment for the same activities.

Main proposals to the Minister of Agriculture

- To require the Chamber to produce the authorisation to provide public aid issued by the Minister of Finance when applying for any allocations.

- To analyse the possibilities of financing the activities supported in the framework of the appropriation from government support, structural funds etc, and to use this information for determining the appropriation and its amount in the draft budget of the government area.

- To provide, in the contracts, for the obligation of the recipient of allocated funds to keep separate cost accounts for these funds; to provide, in the contracts, for the recipient's obligation to classify expenditure as accrued; to specify the maximum permissible amount of administrative expenses in the contracts for the use of allocated funds.

- To apply for funds to be allocated directly to organisations performing public functions, without any intermediaries.

- To avoid duplication of payments for the same activities.

The Minister of Agriculture agreed with the proposal to analyse the sources of financing the Chamber's activities and to use the support facilities more in the future. It is planned that from 2004 the measure financed from the European Agricultural Guidance and Guarantee Fund for supporting advisory and information dissemination services will be implemented. This measure precludes the supporting of similar activities through several channels.

The Ministry has analysed the conformity of the projects implemented through the Chamber with the public aid guidelines applicable in the EU. As a result of the analysis, various criteria related to projects are changed to align these to the principles of providing public aid. The Ministry plans to implement the changes in connection with the use of budget funds for 2004.

Improvements in cost accounting and the setting of maximum limit to administrative expenses are envisaged.

Proposals to the Minister of Finance

- To provide, in the annual Regulation concerning the preparation of the draft state budget, for the Ministries' obligation to produce an analysis in cases where an allocation is applied for a legal person not related to the government:

- which public interests are pursued and which target groups benefit from the activities;

- what is the desired result;

- to which extent is the performance of relevant public functions by a legal person not related to the government economically justified.

- To supplement the Regulation concerning the preparation of the draft state budget with the substantive requirements to the explanatory memorandum to be attached to the budget when applying for an allocation.

- To suggest to the Government that the rules governing the conclusion of contracts should be supplemented with an obligation to keep separate cost accounts.

- The Minister of Finance agreed with the proposals and will take these into account in drafting the Regulations.

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