

# Procedure for loan applications related to the corona crisis at the Rural Development Foundations

*To whom was the loan granted and was it always taken to mitigate the effects of COVID-19?*

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## Summary of audit results

### What did we audit?

In 2020, various state budget measures were implemented to mitigate the negative impacts of COVID-19 on the economy. One of them was the COVID-19 loan for bioeconomy and rural enterprises, which was granted through the Rural Development Foundation (RDP). The National Audit Office analyzed the work organization of the RDP based on the requirements established for COVID measures by the Government, which set out to ensure equal treatment of companies and transparency of the implementation of the measure. The companies and their loan applications were also analyzed to describe the overall implementation of the measure.

### Why is this important to taxpayers?

The COVID-19 loan for bioeconomy and rural enterprises (hereinafter the COVID loan) was one of the largest measures in terms of financial volume. For this purpose, 100 million euros were allocated from the state budget. 347 companies applied for the loan, of which 248 received a loan in the amount of approximately 86 million euros.

### What did we find and conclude from the audit?

**The National Audit Office finds that part of the loan money intended to mitigate the impacts of COVID-19 went to enterprises that did not observe any impacts of the crisis themselves or considered the fact that banks would not lend them money as the only impact. The RDP did not always verify whether the need for a loan was caused by the COVID crisis. However, the negative impact of COVID-19 was the main precondition for getting a loan under the terms of the measure. Any loan decision that deviates from the intended purpose reduces the chances of helping those who actually suffered from the crisis.**

**The NAO also finds that the RDP has collected the information necessary for making loan decisions from enterprises to different extent and in different ways, and there was a lack of transparency when making a negative decision. There are certainly enterprises that have received the necessary help with the loans, but there is also a risk that the crisis measure did not solve the crisis and that the state's ability to help those in need in the future has decreased.**

■ **The RDP approved 10 loan applications in the amount of 5 million euros for enterprises that had stated in their loan application that they had not observed the impact of COVID on their enterprise.** The negative impact of COVID-19 was the main precondition for getting a loan. The mere statement that a bank had refused to lend money to the enterprise (54 enterprises) was often accepted as an impact of COVID-19. Most of these enterprises (41) requested and received investment loans in the total amount of 17 million euros. The RDP did not find out how the need for a loan was exactly caused by COVID. One of the main negative economic impacts of the crisis was decreased turnover. It

is important to note that many of the enterprises described above (14) increased their turnover during the crisis, and in several cases this was also predictable on the basis of the financial data provided to the RDP.

■ **When processing the applications, the RDP did not verify that an applicant could not receive a loan from the bank (91 enterprises to which the RDP granted loans in total of 18 million euros) or that the terms offered by the bank were unreasonable.** At the same time, one of the preconditions for getting a loan was that the enterprise is not able to attract additional finances from other sources or that it would be too burdensome for the enterprise.

The practice of the RDP to prove that banks are not willing to lend money to an enterprise was also controversial. The enterprises provided to the RDP information on the banks' refusals to a varying extent (some from one bank, some from five banks) or did not provide at all and the RDP accepted that. On the other hand, in case of some enterprises, the RDP explicitly required to provide this information.

According to the rules, the enterprise's liquidity problem would have to have occurred unexpectedly due to COVID, but there were enterprises that were only established during the crisis (4 companies, a total of 0.7 million euros) and also received loans, and some enterprises received loans repeatedly (13 enterprises, 7.1 million euros). The need for a loan for enterprises established during the crisis could not have occurred unexpectedly due to the crisis. The same question arises in the case of repeated need for a loan.

■ **The RDP has not complied with the requirements of the Administrative Procedure Act when implementing the loan measure.** Decisions to grant and refuse loans have not been substantiated in accordance with the Administrative Procedure Act, and the reasons for refusing loans remained unclear in several cases. When granting loans to alleviate the impact of the COVID crisis, the RDP acts as an administrative body on behalf of the state, which must be guided by the public interest and objectives when making decisions on public money. In performing its public duty, the RDP must be guided by the Administrative Procedure Act and give reasons for decisions to grant or refuse loans in the manner prescribed by law, and document them accordingly. The requirements of the administrative procedure are not merely a formality, but established for a reason in order to ensure the trackability of the administrative body's activities and the protection of the rights of those concerned. Acting as a party of the public sector, the RDP cannot comply with these requirements selectively. The work organization of the RDP was therefore insufficient to ensure the transparency of the procedure and equal treatment of applicants.

#### **What do we recommend as a result of the audit?**

The National Audit Office finds that the Minister of Rural Affairs must with more effective control over the activities of the RDP ensure that the RDP follows the principles of administrative procedure when performing its public duty, makes decisions transparently and supports them with factual circumstances. It is also necessary to ensure the separation of the roles of the RDP governing bodies in establishing internal procedures, so that the rules of procedure of the Council are established by the Minister and the Boards Council of Procedure, and there are appropriate rules in place to support transparent and legitimate administration. The National Audit Office recommends increasing the capacity of the supervisory board and creating a permanent internal audit function either under the the supervisory board or the ministry. For further implementation of measures to mitigate the impacts of COVID through the RDP, the Ministry of Rural Affairs must provide guidelines for setting out the main terms and conditions of the measures (COVID impact, loan refusals from banks) and limit the RDP discretion to specific factual information.

[In their reply to the recommendations, the Minister of Rural Affairs considered that application of administrative procedure to the activities of the RDP, as well as to other state foundations, is not yet a](#)

generally accepted and undisputed position. The issue needs to be discussed nationwide in a broader context and not only in the context of the RDP' activities. In its response, the Minister for Rural Affairs also found that the RDP should have applied the administrative procedure only if it had granted loans on more favorable terms than market conditions provide, i.e. with state aid.<sup>11</sup>

The Minister promised to consider the recommendations to guide the reorganization of the internal work organization of the RDP and to introduce an internal audit at the RDP. The Minister replied to the proposal to specify the basic conditions of further measures to mitigate the impacts of COVID that more detailed guidelines have been given to the RDP on the target group of loans and the impact of COVID with regard to the unused loan funds in 2020.

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<sup>1</sup>**Comment of the National Audit Office:** In the opinion of the NAO, this explanation is not relevant, as the decisions were not very transparent in the cases when the loan was not granted. The question of whether or not to grant state aid was not and could not be discussed in these cases.