# COFAG and grants to companies

Performance audit

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FULL REPORT (DE)　PRESS RELEASE (EN)　PRESS RELEASE (DE)

## What we audited and why

In 2021, we audited the Federal Ministry of Finance, COFAG (the COVID-19 Federal Financing Agency, core business: handling COVID-19-related financial measures for companies), and ABBAG (the Federal Liquidation Management Company, core business: bank resolution and realisation of assets).

We assessed the establishment of COFAG and the composition of its management and supervisory bodies on the basis of corporate governance standards for public companies, and the COFAG's organisation and financing.

We also audited the design, extent, and effectiveness of the grants to companies, when possible, as well as the efficiency and speed of the funding process. Our report is thus divided into two parts: COFAG (Part I), and grants to companies (Part II). The period under review was March 2020 to June 2021.

## What we found

The Ministry of Finance created a new funding body, COFAG, within a few days, to handle COVID-19-related financial measures for companies. COFAG was established as a subsidiary of ABBAG, and its activities were limited to handling COVID-19-related financial measures for companies, such as guarantees and financial aid. The Federal Government, as the sole owner, provided COFAG with €19 billion.

We found that:

- the Ministry of Finance's decision of creating such institution was not clearly documented. It did not consider other alternatives either;
- there were entanglements, for instance between ABBAG and COFAG, as a result of the appointment of COFAG's executive bodies at the suggestion of the Minister of Finance;
- although there were internal guidelines on how to deal with potential conflicts the handling of potential conflicts of interest on the COFAG Supervisory Board was not sufficiently regulated. The advertisement and appointment of the Management Board did not comply with the Job Description Act;

- the remuneration of the supervisory board was not based on the remuneration grid of the sector;
- some services and expertise, including in funding and subsidies legislation were often outsourced, which is not a usual practice for this type of funding bodies;
- the design of the funding for the fixed cost subsidy resulted in additional payments of up to €117 million;
- in the case of revenue compensation, companies were only entitled to subsidies if they belonged to a certain sector; and
- there was a considerable potential that company groups would receive large amounts of money through its different affiliates.

## What we concluded

The Federal Government had to act quickly, to avoid lasting damage to the economy. However, financial aid could have been more accurately targeted if there had been specific evidence of losses. We criticise the lack of a clear trail in the creation of the new funding institution. This is still necessary, even during a crisis, to prove the legality and regularity of the procedure.

We therefore recommended that the Ministry of Finance:

- take the lead in the submission of draft laws, as provided for in the Federal Ministries Act, and involve the in-house expertise in the Ministry itself;
- in the context of participatory management, ensure that:
  - the appointments to roles in executive bodies is carried out in accordance with the standards of compliance and public corporate governance. Cases of double mandate, personal long-standing functional and working relationships, and close institutional relationships should be assessed in advance in terms of possible conflicts of interest, also to ensure heterogeneity in the supervisory board; and
  - working hours and remuneration of executive bodies with dual roles in affiliated or group companies are considered as a whole. The bodies responsible for concluding executive contracts (general meeting, supervisory board) should coordinate and periodically evaluate the adequacy and timeliness of the agreements. The members of management should be obliged to report any need for adjustment;
- introduce a cooling-off period for ministry officials and cabinet members who work in ministries with strong links to investee companies or are involved in preparing the establishment of public companies, before they take up management roles in those companies;
- when defining the organisational structure and staffing of newly created entities, there should be company-specific know-how and practical experience in place to minimise dependence on external service providers;

- at the end of the financial measures, examine what services are still to be provided by COFAG, in terms of their nature, scope and over what period, and to dissolve the company once the tasks have been completed;
- when setting the eligibility conditions, avoid, as far as possible, general assumptions about the economic impact of external factors; applicants for funding should present their financial losses to avoid systematic overfunding; and
- when setting the eligibility conditions for financial assistance to companies, and specific assessment criteria for companies belonging to a group is included.