

Position paper on Subsidy Control & Enforcement

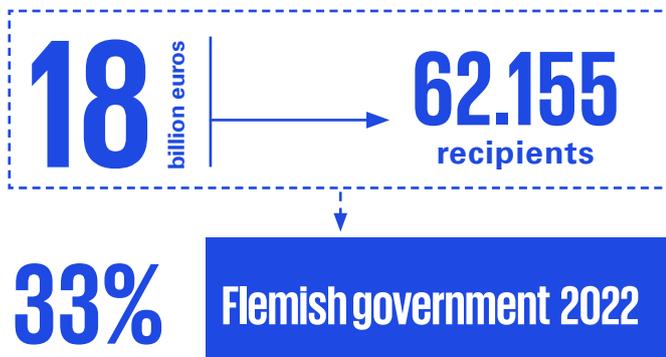
April 2024



1. Problem statement

Subsidies are an important building block of our economy and society, at both the local and federal level, as well as at the European level. They stimulate innovation, create employment, finance social projects, attract investments, and strengthen the local economy.

In 2022, the Flemish government unveiled its first public subsidy register, enhancing transparency in the distribution of subsidies in Flanders. The subsidy register shows that, with more than 18 billion euros granted to 62.155 recipients through 700 subsidy mechanisms, subsidies represented around 33% of the total spending of the Flemish government in 2022¹.



The large number of subsidies and subsidy mechanisms however also entails a significant risk of potential abuse. During the COVID-19 crisis, for example, an estimated 10 to 15 percent of all support provided by Belgian governments ended up in the hands of criminals, fraudsters, or companies on the verge of bankruptcy². With the increasing pressure on our governments' budgets, it seems inevitable that a stricter enforcement of the allocation and use of subsidies will become a core task for future administrations.

In practice, however, we often see significant obstacles that hinder the effective and efficient enforcement of subsidy controls. The first obstacle arises with the

design of subsidy and control mechanisms. Subsidy schemes sometimes pay too little attention to the control aspect or are insufficiently focused on how post-factum verifications on the use of the subsidies should take place. Moreover, there is often a lack of clearly defined thresholds and triggers for suspending, reducing, or withdrawing subsidies, as well as for imposing administrative fines.

A further obstacle is the lack of essential source data and technology to establish efficient and effective control mechanisms, which further increases the pressure on the already limited resources available to ensure that subsidies are used correctly. Government departments and agencies do not always have sufficient manpower to conduct in-depth inspections. The need for capacity and for more effective and efficient control mechanisms is therefore pressing.

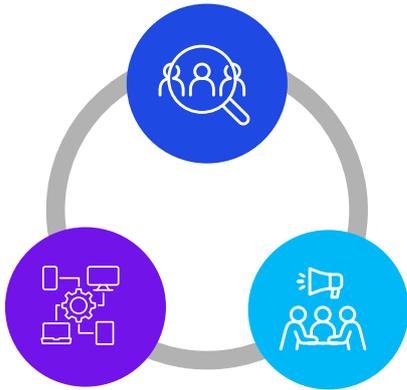


¹ https://docs.vlaamsparlement.be/docs/begroting/bo2023/BO23_Centenboekje.pdf

² <https://www.tijd.be/politiek-economie/belgie/algemeen/tot-15-procent-fraude-met-coronasteun/10272287.html>

2. What can governments do?

Design of subsidy policies and control mechanisms



Use of technology

Provision of capacity

a. Design of subsidy policies and control mechanisms

An adequate subsidy policy establishes clear, objective, and measurable criteria that potential recipients must meet to demonstrate that subsidies have been used correctly and efficiently. Such a policy also clearly determines in which cases sanction measures can be taken. Providing subsidies based on conditions that cannot be (unambiguously) verified allows for personal or context-based interpretation.

A concrete example of this is awarding subsidies where the amount depends on the net income of the recipient over a certain period, without clearly specifying which costs may be charged to arrive at this net income and/or without determining the documentation that must be provided to substantiate the figures.

When designing subsidy policies, it is essential that proactive thought is given to possible ways in which (potential) recipients can misuse the system to obtain subsidies unlawfully.

b. Use of technology

In designing an adequate subsidy policy, it is also important to consider from the outset how the information and documentation required to evaluate a subsidy application and/or to verify compliance with subsidy conditions, can best be gathered and analyzed. It is advisable to enable the most efficient – and ideally automatic – evaluation and inspection possible.

In this context, technology can play an important role. For example, data analytics can be used to identify trends and anomalies and to define what the reasonable use of subsidies entails, such as reasonable costs and profits when using subsidies. Furthermore, stronger emphasis can be placed on the use of intelligent forms and questionnaires to collect and consolidate the required data from subsidy applicants in a structured manner and to automate the verification of certain award criteria.

An example of this is the automated verification of the annual turnover of subsidy applicants compared to a predetermined threshold value. This process involves looking up the entity's company number in the database of the National Bank of Belgium (NBB) and comparing it to the turnover figure in the last available financial statement of the entity within the NBB database. Intelligent forms allow for this exercise to be fully automated, thus minimizing human interaction.

Another way to improve the effectiveness and efficiency of subsidy controls is the application of Intelligent Document Processing (IDP). This technology automates the extraction, interpretation, classification, and processing of information contained in digitized documents and can be used to automate compliance monitoring with subsidy conditions.

IDP can be used, for example, to automatically extract data from invoices, contracts, and work statements and compare them to other information - think, for example, of automatically identifying the name of a supplier on an invoice and verifying whether the subsidy recipient is a director of that supplier.

By integrating technology structurally in the process of document gathering and analysis, human interaction can be limited, freeing up capacity for expert decision-making. Moreover, in this way, it can be ensured that controls are carried out in a uniform and standardized manner.

c. Provision of capacity

While integrating technology doesn't necessarily have to be a major and time-consuming undertaking, human interaction is often still necessary. In this context, outsourcing the execution of controls to an independent third-party can provide a solution. This (partial) outsourcing of subsidy controls can take place in the form of a managed services model, whereby the contractor takes over the entire process (including technological support), or in a capacity provision model, whereby the contractor only provides the necessary employees while the competent authority retains control over the process.

3. Conclusion

We hope that these insights have increased your understanding of the crucial role of enforcement in government subsidy mechanisms. KPMG is ready to assist you in improving your subsidy policies and controls. With our experience in implementing technological innovations, we can establish and execute effective control processes for subsidies. Please feel free to contact us for an informal conversation. Our expertise enables us to provide expert advice and practical solutions so that subsidies are optimally utilized for a better society.



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