

# Conclusions and recommendations of the National Audit Office

## Subsidies for agricultural investments – Improving profitability and competitiveness

The objective of the audit was to examine the effectiveness of subsidies for productive agricultural investments. The subsidies are granted for various projects promoting agricultural production and for animal and crop production. Typical investments subsidised include cowsheds and other buildings and equipment of animal production, the structures of greenhouse production, improving the condition of fields and purchases of various machinery. The funding for the current subsidy period 2023–2027 amounts to approximately EUR 470 million. The subsidies have totalled approximately EUR 100 million annually. In addition to direct subsidies, the support may also be interest support and guarantees for loans.

Investment subsidies are more important for the development of agriculture and food production than their amount in euros. Investments determine the kind of agriculture that will be practised in Finland in the future, as they are made in order to develop agriculture. Other agricultural subsidies mainly aim to maintain agriculture. Investment subsidies aim to improve the profitability and competitiveness of Finnish agriculture. In order to obtain a better overall picture and to provide a background for the findings, the audit also assessed the development and future of the structure of Finnish agriculture.

### The effectiveness of investment subsidies cannot be assessed based on current data

The effectiveness of investment subsidies has not been assessed by methods that would demonstrate their impact on the realisation of investments. So far, the amount of subsidies has been sufficient for all eligible applications, which makes it impossible to carry out a comparative assessment. Nor is information collected from the beneficiaries on the impacts of the subsidies on the development of operations. The good availability of subsidies increases the need to assess their effectiveness.

The audit failed to assess the impacts of investment subsidies on achieving profitability and competitiveness as intended. The audit did not manage to collect adequate data because the tax authorities' data and the investment subsidy data could not be combined. Incorporation of farms and the related ownership cooperation have been common, especially at the farms that have received subsidies. This leads to a break in taxation data. Access to information proved even otherwise to be highly problematic and take a long time.

## Investments are linked to the profitability of the farm

Based on the audit, there is a clear connection between investments and profitability. However, it was not possible in the audit to demonstrate the effectiveness of investment subsidies.

Based on the audit, the farms that carry out investments are already more profitable than farms on average. Measured in terms of the profitability coefficient, the farms that make investments achieve on average the profitability coefficient one. The profitability coefficient is a key figure used in agriculture to indicate whether the activities yield a sufficient return on the labour input and capital employed. Based on the profitability coefficient, agriculture as a whole has been continuously unprofitable, i.e. the farms that make investments already differ from average farms when they start investing. The audit findings show that the more frequently a farm has invested, the higher its profitability. The audit also found that after an individual investment, the profitability of a farm improves over a period of three years. However, it is not possible to generalise from this finding or say how widespread the phenomenon is, because the assessment had to be made on the basis of very limited data. However, these two findings on the profitability of investments are in line with each other.

Long-term activities require development measures. Due to the relatively steady development of the productivity of agriculture, a natural development target for a farm that wants to continue its activity is the expansion of production. In practice, investment subsidies suffice for all applicants and have been granted to all eligible applicants. Although its objective is related to development, the investment subsidy may therefore also, to some extent, have supported preserving the current type of agriculture. The structural development of agriculture might be faster without investment subsidies.

## A knowledge-based subsidy policy would require a better picture of the changing agricultural entrepreneurship

Better information would be needed on the structure and economy of agriculture. A more detailed description of the current situation would be needed particularly when decisions are made on future investment subsidy policy. Farms that invest frequently and develop their activities differ considerably from the traditional family farm model, where the management of the farm is mainly based on one family's work on the farm. However, agricultural statistics and the economic monitoring of agriculture continue to be based on such family farm thinking, a small unit size in agricultural production and the related form of operation.

The size of the farms that carry out investments is constantly growing, and a clear change is taking place in their form of operation. Agriculture is practised increasingly in the form of a limited liability company by more than one shareholder. Although the farms that make investments and focus strongly on continuing their activity are still a minority, they already play a key role in the volume of agricultural production, and the trend continues.

The concentration of agriculture is already greater than the statistics show. In a major production line, i.e. milk production, this is the result of production

cooperation between farms and the increasingly common limited liability company form of operation. The number of production plants (cowsheds) is considerably smaller than the number of farms engaged in milk production. At the end of 2023, the number of dairy farms fell to around 4,000, and of these, already 10% participated in co-production with other farms. In reality, the number of milk production plants, or dairy farm cowsheds, is likely to be around 3,500.

The concentration trend is also reflected in the granting of investment subsidies: subsidies are mainly granted to a smaller group of beneficiaries than before, i.e. to farms which make investments more frequently and whose investments are larger than average. This is clearly reflected in the beneficiaries operating in the form of a limited liability company. They account for approximately 15 per cent of the total number of beneficiaries but are granted more than one third of the total subsidies. The concentration trend has been particularly strong in greenhouse production and in pig and poultry production. In these forms of production, the majority of the investment subsidies of the previous subsidy period was granted to beneficiaries that had received investment subsidies more than once during the past seven years.

Agricultural subsidies aim to maintain agricultural production in the EU and in different parts of Finland. Investment subsidies do not have the same objective. In order to safeguard future production, investment subsidies should focus on efficient achievement of the targets set. In the planning of subsidies, this requires a better knowledge base on the types of farms that utilise subsidies and on the kinds of measures that could be taken to cost-effectively support farms that make investments.

## Recommendations of the National Audit Office

1. The Ministry of Agriculture and Forestry should organise the collection of data and statistics on the development of the finances of agricultural entrepreneurs and the agricultural structure in such a manner that the picture would correspond to the current form of agriculture and the related information needs.
2. The Ministry of Agriculture and Forestry should produce information on the impacts of investment subsidies on individual farms and on the agricultural production to make it possible to assess the usefulness of the investment subsidies and to develop the policy measures needed.
3. The Government and the Ministry of Agriculture and Forestry should, particularly when planning investment subsidies but also in agricultural policy and in safeguarding food production, take into account the differentiation trend in agriculture and the development of farms that continue their activity to resemble increasingly other business activities.