

Investment supports to Czech farms and their expected future under the CAP 2020+

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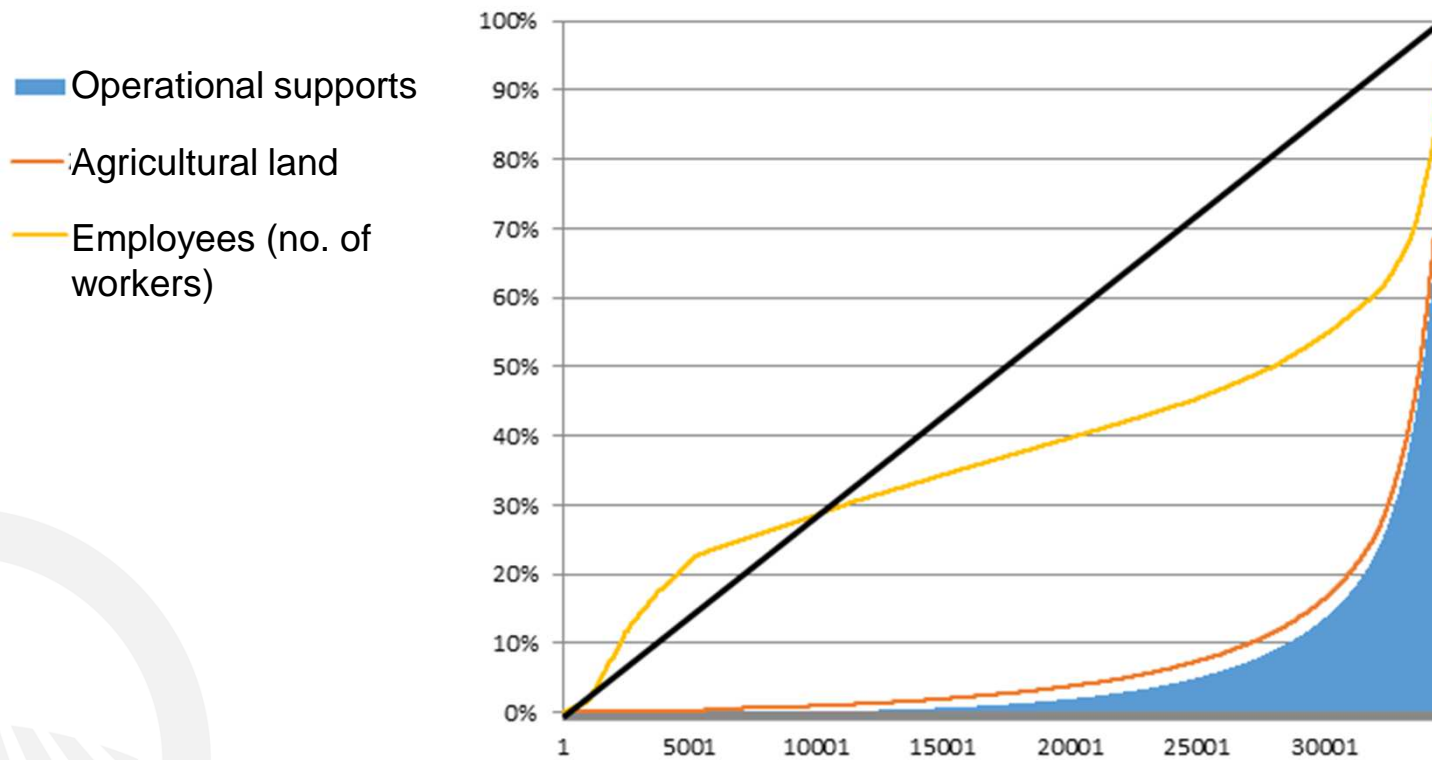
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ÚSTAV ZEMĚDĚLSKÉ EKONOMIKY
A INFORMACÍ

Introduction

Extreme dual structure of Czech agriculture =>
problem of a fair distribution of supports among farms

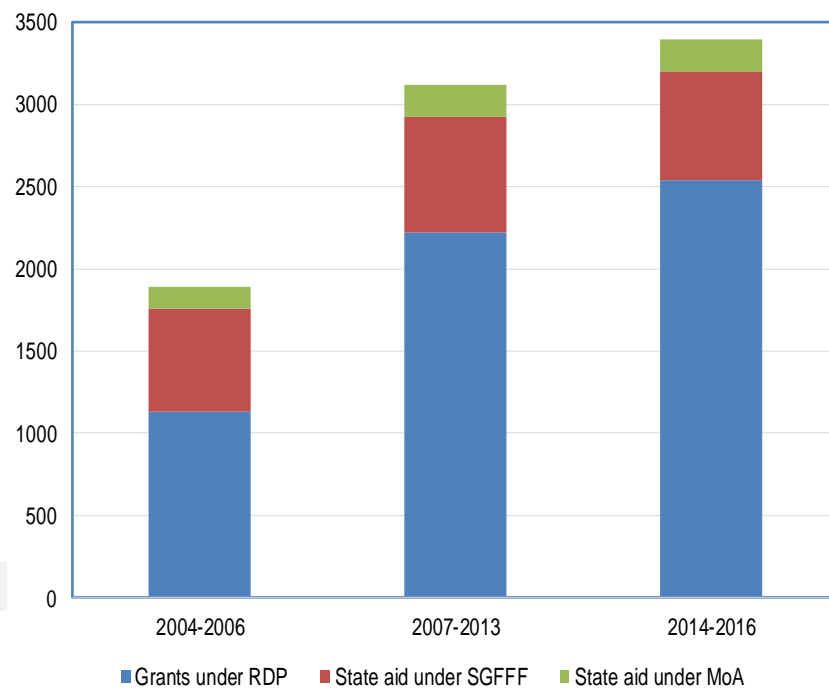


Present forms of investment supports to Czech farms and conditions of their allocation

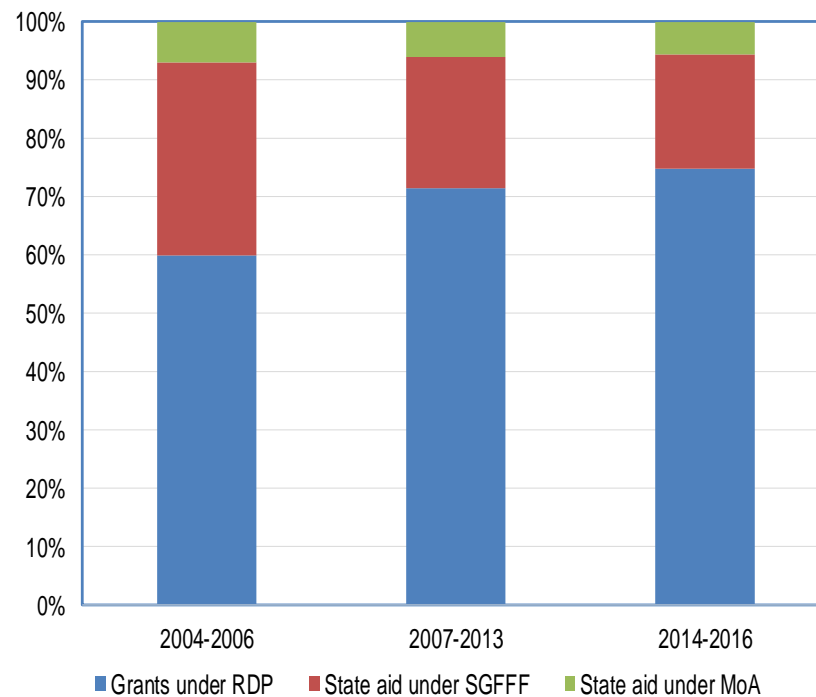
1. Grants under the RDP 2014 – priority 4, up to 60% of investment costs:
 - Criterion: payback period calculated by the IAEI model (see further)
 - About 70% of all investment supports
2. State aid as activities of the Support Guaranty Farm and Forestry Fund (SGFFF):
 - Interest subsidies and guaranty for bank credits, criterion: financial health assessed by banks
 - Returnable loans with the application of de minimis
3. State aid - grants 100% as subsidies of the Ministry of Agriculture

Investment supports to Czech farms by sources - grants totally prevailing

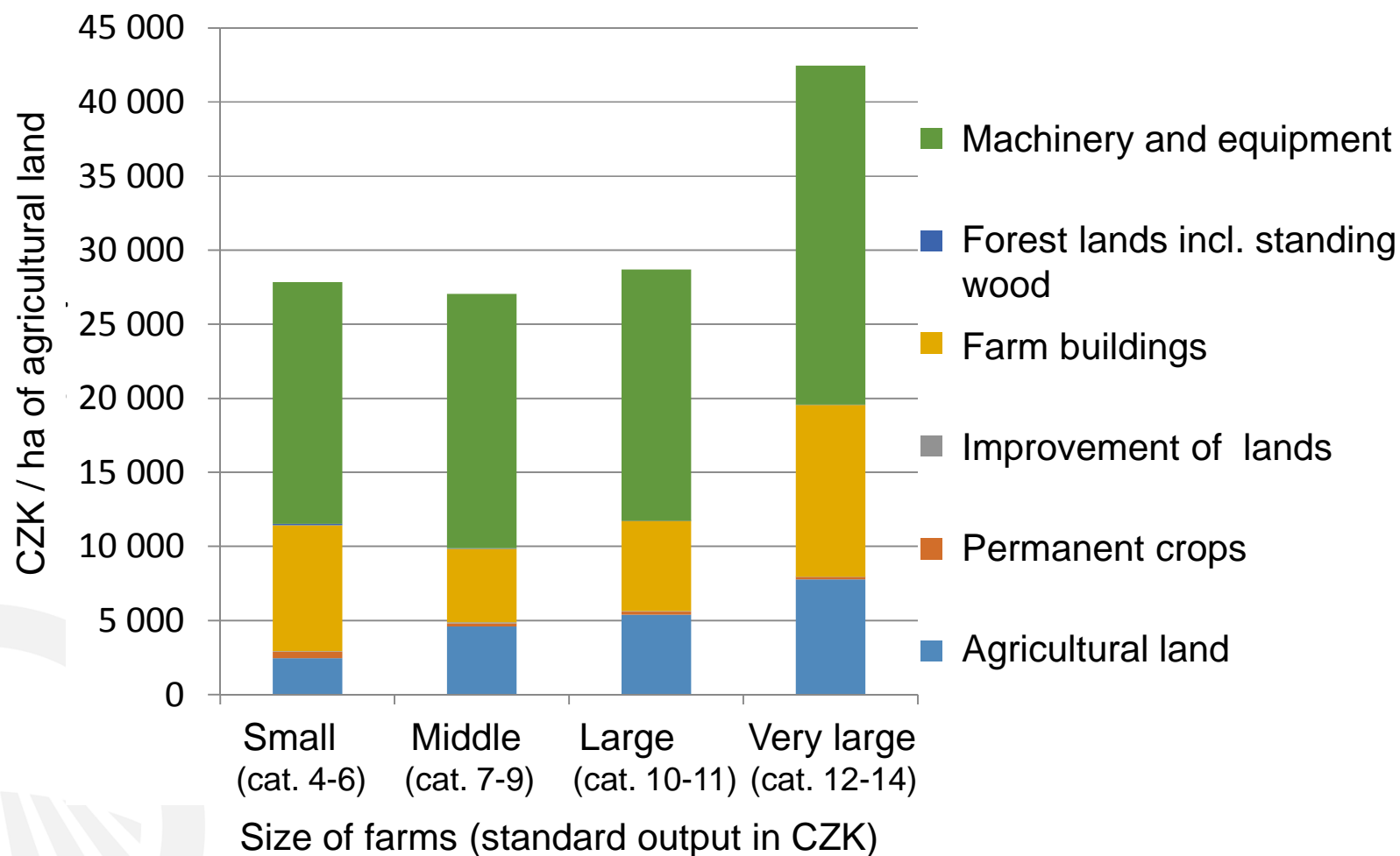
in CZK mio



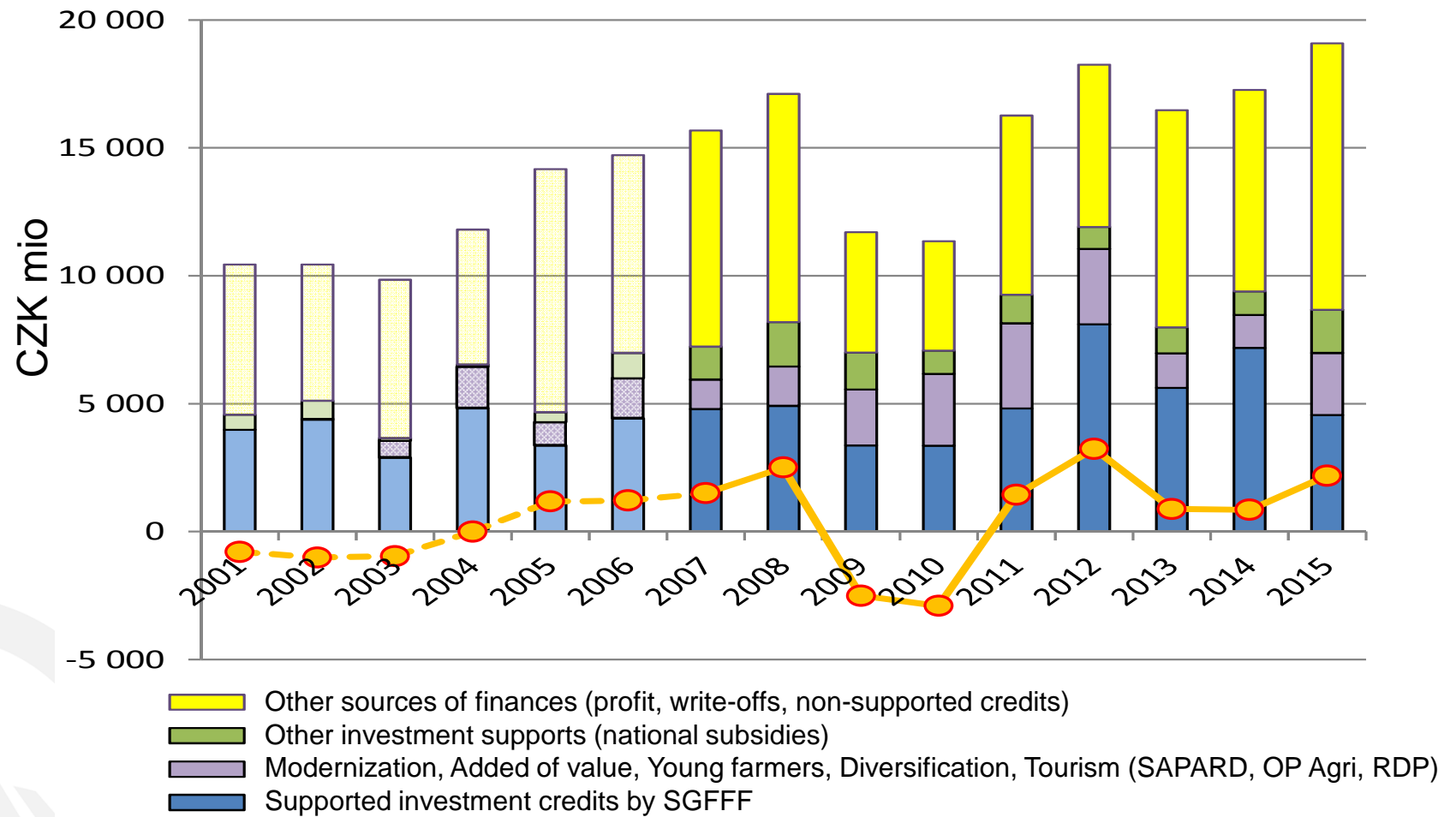
in %



Investment activity and structure of investments on Czech farms by their economic size 2011-2015



Total investments and their sources in Czech agriculture - other (mainly) own sources important



Investment supports as grants under RDP 2014-2020 – actual situation and problems

- Requests are subdued to an assessment with the application of a special model – calculator (**see in more detail in the next slides**)
- Criterion: payback period
- Normative approach – parameters (FGP, costs, ...) as Czech averages
- Why Czech averages and not individual or local or regional parameters? **Willingness and control capacities of the Czech Payment agency – the State Agricultural and Intervention Fund (SAIF)**

Characteristics of the RDP model - calculator

- RDP calculator used to assess efficiency of investment projects from economic point of view (first version already presented in June 2016 at the IERIGZ conference, Jachranka)
- Original version of the calculator included the projections of future values and minimum and maximum thresholds of values
- Current version includes normative values and will be used for the 5th call for grants for operation *4.1.1 Investments to agricultural holdings* and *4.2.1 Processing and marketing of agricultural products*

Characteristics of the RDP model – calculator

- Evaluation system developed for the first calls = simplified system based on investment intensity of sales (sales for 10 years divided by total investment costs), not considering the costs of the project

$$\text{investment intensity of sales} = \frac{\text{sales for 10 years}}{\text{total investment costs}} \geq \text{"marginal percentage"}$$

- Almost all projects fulfilled this criterion

Characteristics of the RDP model - calculator

- Current version calculates the payback period of investments – lower than lifetime period of the investment

$$\text{payback period} = \frac{\text{Cash Flow or Profit}}{\text{Investment costs}} \geq \text{lifetime period}$$

- Lifetime categories (set by SAIF):

4.1.1 - Type of the investment	Nr. of years	4.2.1 - Type of the investment	Nr. of years
Purchase of the real estate	30	Real estate	50
Building costs	30	Building costs	25
Technology/technological costs	15	Technology/technological cost	15
Machine	10	Machine	10
Project documents	30	Project documents	25
Costs related with the preparation of the project	3	Costs related with the preparation of the project	25

Characteristics of the RDP model - calculator

Efficiency of projects from 1st and 3rd calls if they were evaluated by payback period:

Operation 4.1.1. - 1st Call for grants application

■ Yes ■ No



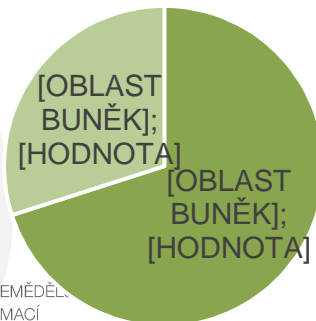
Operation 4.1.1. - 3rd Call for grants application

■ Yes ■ No



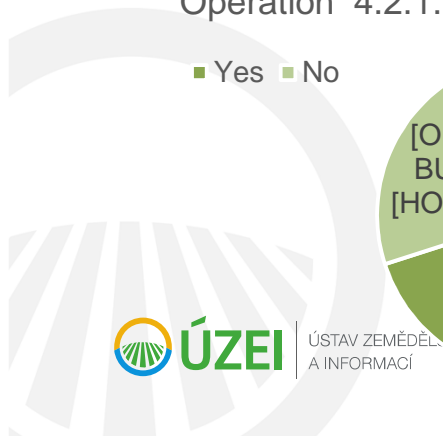
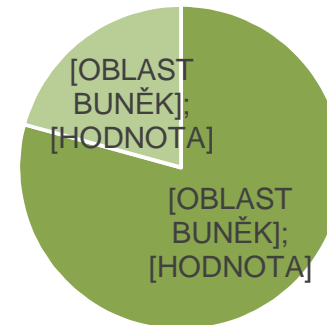
Operation 4.2.1. - 1st Call for grants application

■ Yes ■ No



Operation 4.2.1. - 3rd Call for grants application

■ Yes ■ No



Problems/risks of grant systems applied in investment supports (under RDP 2014+) (1)

To differentiate in evaluations various goals of investments
=> multi-criterial cost/benefit approach needed:

- ***To increase economic efficiency (prevailing criteria)***
- *To be more internally sustainable – soil, water...*
- *To increase output of eco-system services (public goods)*
- *To increase animal/human welfare*
- *To attract young generation*
- *To solve a lack of labour demand - to substitute labour with machinery*

Problems/risks of grant systems applied in investment supports (under RDP 2014+) (2)

Risks of a moral hazard of the government (why? The state invests!)

- *Opportunity costs to invest in other sectors of the national economy*
- *Improper allocation of supports inside of agriculture.*
- *Unjust allocation of supports among farm categories – advantages of large farms*

Leakage of farms supports to investment suppliers

High administrative/transaction costs

Dead weight losses

Dead weight losses – results of counter-factual analyses

- Selected investment measures (Modernization and Diversification) improve the performance of supported farms (which are larger and more stable over time)
- Significant benefits of investment support consist mainly in business expansion (output growth and GVA)
- Even less significant labor productivity, TFP (increase in capital expenditure-depreciation in the share of total costs)
- Improve of the availability of funding sources and mobilize additional sources of funding (increase credit indebtedness) compared to unsupported farms, but over time this difference in credit indebtedness decreases (lower effect of the policy because of better conditions on credit markets)

Dead weight losses – results of counter-factual analyses

- The deadweight effect appears rather small but increases over time.
- It is also linked to the question of whether structural support is to be provided several times over the duration of the program to one applicant
- Small businesses discourage the complexity of the application process
 - Pointed to a distribution problem, where 60% of enterprises received only one project under 121 (Modernization), which accounted for roughly one third of all projects but accounted for only 21% of the budget of the measure. By contrast, enterprises with 3+ projects accounted for only 19% of the beneficiaries, but they used more than half of the aid (57%).
 - Partial solution in the distribution of financial envelopes for projects according to their size (already applied 2014+)
 - Increasing the project limit from CZK 30 million to CZK 150 million (partially justified with regard to the nature and size of projects in the aquatic environment) - At the same time, it is necessary to apply the limit in terms of the number of drawn projects per enterprise

Conclusions for investment supports

1. To reduce the grant system only for „non-productive“ investments
2. To apply financial instruments under the SGFFF and to shift larger part of risks and administrative/transaction costs on private banks
3. But to be aware – the government tries to convert the SGFFF into a „state bank“!

Thank you for your attention.

