

Support for Organic Farm Investment

Pacific Organic Policy Toolkit
<http://www.organicpasifika.com/poetcom>

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Political justification

For any commercial sector, the quantity of private investments is a decisive factor for sector growth. Organic agriculture is no exception to this economic reality. This is particularly true for the conversion process: conversion to organic farming can be costly in terms of initial investment such as new machinery, adaptation of livestock facilities, integration of on-farm processing facilities, etc. This makes farm investment support a very important element to facilitate conversion.

Besides the general goal of supporting sector growth, there are several reasons that can justify public support to private investment in the organic sector, especially at the farm level (where farmers are making the individual investment decisions). First, the acquisition of machinery and other equipment specifically adapted to organic farming is rendered more expensive for farmers than conventional equipment, simply due to the absence of economies of scale (such machinery is still produced in relatively low numbers). A shift to alternative technologies therefore requires public intervention to counteract the effect of technological path dependence.

Second, farmers' capacity to invest in their farm is often limited, which prevents them from making investments in favour of organic agriculture even if it would economically pay off in the long run. This is particularly true in production sectors that are under economic crisis in the conventional sector: in such situations, although farmers would see an economic benefit from converting to organic (seeing that their organic counterparts are not affected by the crisis), their financial situation is already so bad that without public support, they cannot afford to make the investments needed for the conversion. Smallholder farmers are also the ones whose production system are best suited to organic agriculture, but again, their investment capacity is very limited – another reason for public support.

Suitable contexts

Stage of sector development: Support for organic farm investment is possible at any stage of development of the organic sector.

Regulatory context: This action is more easily taken in context where there is a clear legal definition of what is organic (i.e. an organic regulation or a legally referenced organic guarantee system), but it is not impossible in other cases: for example, the government may decide to give support for certain type of farm investments which are known to be particularly useful for organic operators, such as mechanical or thermal weeders, mesh nets, compost turning machines, etc.

Culture of government intervention: Support for farm investments can be obtained under various cultures of government intervention, although it will be more difficult in the case of low interventionism culture.

Policy objectives: This action is relevant to any of the objectives for policy support to organic agriculture.

Possible modalities of implementation

In developing countries farmers may need investment assistance for organizing facilities and equipment to establish and participate in a cooperative. Government investment could be in the form of grants or low-cost loans. Loan programs could be via government partnership with national banks, with the government role in guaranteeing the loan and/or subsidising the interest. Governments could offer this under a general agriculture investment program that gives preference to organic farmers, or under a program targeted exclusively at converting and expanding organic operations.

Farm investments can be encouraged on an individual basis (farmers apply for the incentives individually) or on a collective basis (incentives available for farmer groups and cooperatives that share equipment and machinery, for example).

Pitfalls and challenges

Investment support (especially when in the form of grants/subsidies) means that beneficiaries receive a lot of money at once (or in a short time) for being organic. The main challenge of such support policies is then how to be sure that the beneficiaries will really stay in the organic sector? The experience of the Czech policy to support farm investment of young farmers through investment grants for organic farmers shows the challenge of setting criteria for access to such grants. There has been some opportunistic behavior of operators becoming organic in order to qualify for the grant aid and reverting to non-organic farming once the commitment is over. Some improvements suggested to the policy included restricting preferential treatment to those organic farmers whose farms are wholly converted or who market their product as organic or are willing to do so should their application be successful. Somehow, the investment support needs to be linked to a long-term commitment (e.g. 5 years) and to connecting the producer to the premium organic market. Another approach is, like Tunisia, to focus the investment support on machinery and equipment that are specifically needed in organic agriculture, such as mechanical and thermal weeders, grinders and compost-making machinery, compost and manure spreaders, and insect proof mesh.

With reduced interest rates for loans there is less risk of opportunistic behavior because the benefit is less immediately tangible, but it has other disadvantages. Some countries (such as Costa Rica) passed such support measure but it was never implemented due to the lack of cooperation by the banks. Unless the government covers the gap in profit by compensating the banks for the reduced interest rates they offer to organic operators those banks hardly see a reason to offer such

discounts.

Even when the credit lines are (theoretically) open, it does not guarantee that the benefit will reach the producers. The experience of the subsidized credit lines opened in Brazil for organic farmers shows that there can be problems in the uptake of those schemes. For example data for the years 2005 to 2010 shows that the total resources granted by PRONAF - Agroecologia were only € 3.1 million through 979 contracts, and that 40% of the budget allocated went to the Northern Region (mostly to the State of Pará). It is likely that this is related to difficulties in accessing credit due to lack of awareness and preparation from financing institutes and lack of awareness on the side of the producers, who do not know about the mechanisms or do not have the capacities to develop the projects to request credit. Capacity building for technical assistance to support rural projects to request credit can address these challenges.

Countries Examples

Quebec Province, Canada: Financial support is available to farmers for up to 50% of the cost of building or adapting livestock facilities for organic production, to a maximum of CA\$ 20,000. Additionally, under a program of support for diversification and regional development, companies opting for organic farming are eligible for reimbursement of interest on a capital loan for a period of 3 years. This support can represent a benefit of up to CA\$ 15,000 per company.

Brazil: Subsidized credit for organic farms is one of the actions in the PLANAPO, Brazil's Strategic Plan for Organic Agriculture. PRONAF – Agroecologia is an exclusive credit line for organic agriculture, offered to organic or in transition to organic family farmers and settled farmers (i.e. farmers that obtained land through the agrarian reform). In this special credit line, lower interest rates are offered to these categories of producers, compared to those offered to conventional producers. This credit line funds projects of up to R\$ 130,000 (US\$ 40,000), with interest rates of up to 2.5% per year (while rates offered to conventional, mid-sized operations are about 7%). Interest rates are 2.5 % per year Duration: up to 10 Years. Limits per farmer are: RS 300,000 (US\$ 92,000) for fruit production, RS 150,000 (US\$ 46,000) for other activities, RS 750,000 (US\$ 216,000) for cooperatives (e.g. for irrigation equipment that is shared by farmers).

Switzerland: The Jura canton gives financial aid in the form of a loan without interest of about € 36,000, reimbursable over eight years, for the farming enterprises that begin their business directly as organic or want to convert to organic.