

POLICY SUMMARY: GOVERNMENT SUPPORT FOR ORGANIC FARM INVESTMENT



OVERVIEW

This policy summary provides recommendations on why and how to provide support for investments in Organic Farms. It outlines options for providing this support, followed by examples from various countries.

SUMMARY OF POLICY OPTIONS

Policy instruments include:

- Grants
- Full or partial cost reimbursement
- Loans with reduced interest rates or reimbursed interest
- Tax breaks on organic farming equipment

Frameworks:

- Organic farm conversion support
- Organic farm improvement or expansion support
- Preferential terms for organic or converting farmers under a general farm investment support

RATIONALE

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, or organizational investments such as setting-up internal control systems for smallholder group certification. Additionally, there is another form of “investment” required during the transition period in the sense of building soil fertility and recovering from the initial yield drop: those absorb much needed financial resources at a time where the other more physical investments are also needed.

Acquisition of machinery and other equipment or facilities specifically adapted to organic farming can be more expensive for farmers than conventional equipment, due to the absence of economies of scale. Second, farmers’ capacity to invest in their farm is often too limited, which prevents them from making investments in favor of organic agriculture even if they would economically pay off in the long run. This is particularly true in production sectors that are under economic crisis in the conventional sector such as during price collapses. Smallholder farmers are also the ones whose production systems are best suited to organic agriculture, but again, their investment capacity is very limited – another reason for public support.



All this makes farm investment support a very important element to facilitate conversion.

SCOPE

Support for organic farm investment is possible at any stage of development of the organic sector. It is easier 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.

POLICY OPTIONS

Organic Farm Conversion: A one-time support using outright grants, cost reimbursement, or low-cost loans can be given to farmers in limited time period corresponding to their conversion time under organic certification.

Organic Farm Improvement or Expansion: Organic farmers are entitled to apply to the government for financial support for equipment to:

- improve their operation e.g. to update aging facilities and

equipment or undertake a new farming practice such as on-farm composting;

- expand and diversify their operation e.g. producing new crops or livestock requiring new equipment and facilities investment.

Preferential arrangements for organic producers under general agricultural investment support programs: Examples are higher grants, lower loan rates, preferential eligibility criteria.



COUNTRY EXAMPLES

Ireland: A Scheme of Grant Aid for the Development of the Organic Sector provides investment support for organic farmers and processors. The scheme provides grant aid of 40 % of the cost up to a maximum grant of EUR 60,000 for on-farm investments or EUR 500,000 for off-farm investments.

Germany: At the federal level animal housing investment grants are linked to animal welfare provisions, which is more favorable to organic producers as the animal welfare conditions are close to those in the organic regulation. Producers can get up to a 40% grant for this investment. Additionally, some of the German regions have support schemes reserved for organic farm investments. For example, the region of Thüringen has a program – Ökolinvest – reserved for organic farmers, under which eligible investments can receive a subsidy of up to 40% and up to a maximum of EUR 800,000 per farm during the period 2015 - 2020.

Turkey: Organic farmers can receive loans with 50% interest rate cut.

Tunisia: By decree, equipment specific to organic farming has been subsidized by 30% since 1994.

China: Several local governments have supported organic farm investments. For example, in 2010 Chengdu, the largest city in

Southwest China, introduced financial supports for infrastructure investments such as building greenhouse facilities and road access for organic farms. The local governments of Shanghai and Beijing also have such support. The council of Agriculture of Taiwan also subsidizes green houses investments and the purchase of machinery necessary for organic farming and provides low interest rate loans to organic operators.

Brazil: An exclusive credit line for organic agriculture (called PRONAF-Agroecologia) was launched in 2013. Under this program, interest rates are set at 2,5 % whereas rates offered to conventional operations are about 7%. There is a maximum limit of EUR 82,000 per individual farmer or EUR 206,000 for collective projects (machinery in cooperatives, etc.).

Switzerland: Various cantons supported organic farm investments, particularly those linked to the conversion to organic farming. This has been done in various ways depending on the cantons. The Jura canton gives financial aid in the form of an interest-free loan of about EUR 36,500 - reimbursable over eight years- for the farming enterprises that begin their business directly as organic or want to convert to organic.



Cyprus, Latvia, Estonia and Slovakia: These countries have given additional points to organic farmers in the criteria for access to the farm investment grants.

Canada: The province of Quebec makes financial support available to farmers for up to 50% of the cost of building or adapting livestock facilities for organic production, to a maximum of EUR 13,000. Additionally, under a program

of support to diversification and regional development, operations 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 EUR 10,000 per company.

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