

# Utilisation of subsidy in a program-directed support of agricultural loans

## *Využití dotací v programově orientované podpoře zemědělských úvěrů*

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**Abstract:** The paper is focused on the performance measurement of the Support and Guarantee Fund for Farmers and Forestry (SGFFF) as the main instrument of capital reinforcement of Czech agricultural enterprise development. Its principles as well as the function from the point of view of agricultural enterprises, restructuring and allocation of resources and the reason why the subsidies of the supported loans' interest rates have been employed are cleared up there. The results are discussed upon an analysis of the Fund's activity. According to them, it can be claimed that the Fund has become an important part of supports for the agricultural sector development in the last ten years. From the point of view of the criteria of supported loans allocation, it was ascertained that the level of support has not been derived from the different natural and soil qualities primarily. The economic results and a high level of the prosperity have been evaluated as the main criteria for the decision-making system regarding an effective restructuring of agriculture and improving its competitiveness.

**Key words:** agriculture, competitiveness, loan, interest rate, restructuring, subsidy of primary factors

**Abstrakt:** Příspěvek se zabývá hodnocením činnosti Podpůrného a garančního rolnického a lesnického fondu (PGRLF) jako jednoho z hlavních nástrojů posílení kapitálových zdrojů pro rozvoj českého zemědělství. Vysvětluje principy a funkci Fondu z hlediska podpory restrukturalizace v zemědělství, alokace zdrojů i důvod proč byly dotace úrokové sazby jako systémem uplatněny. Na základě analýzy činnosti a výsledků Fondu je dokumentováno, že tato forma podpory se stala významnou součástí systému podpory zemědělství v posledních deseti letech. Současně prokazuje, že rozhodujícím kritériem v rozhodování o alokaci úvěrů nebyly rozdílné přírodní podmínky, ale naopak ekonomické výsledky a prosperita podniků, které hodnotí i jako rozhodující kritéria v systému rozhodování o efektivní restrukturalizaci v zemědělství a zvýšení jeho konkurenceschopnosti.

**Klíčová slova:** zemědělství, konkurenceschopnost, úvěr, úroková sazba, restrukturalizace, dotace primárních faktorů

The problem faced by the whole Europe and thus also by the Czech Republic, i.e. how to compete successfully on an increasingly globalised food market, can be resolved essentially in two ways. It is either possible (1) to preserve the historical production structure based above all on different qualities of natural conditions, especially agricultural land, using this fact to justify the uneven outcome of agricultural production in various regions and also the entitlement of various regions to the additional financial means in the form of subsidies, thus enabling the traditional agricultural

production to continue for as long as possible and “protecting” traditional European producers against the increasing competition of cheaper products and food from other parts of the world, or (2) to look for a positive solution, often requiring significant structural changes in production orientation and other economic activities of individual companies in accordance with the principles of a knowledge-based economy capable not only of showing the deeper connections and behavioural principles of the current food markets, but also motivating individual subjects to adopt the

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necessary restructuring measures reacting actively to the development and conditions of demand on the relevant markets. The latter method may be used as a key to enhance the competitiveness and economic efficiency of agricultural companies.

The Union's Common Agricultural Policy is one of the areas subjected to a growing criticism not only by the World Trade Organisation, promoting market liberalisation, but also by some EU member states questioning the ever-increasing cost of regulation of this sector. We have been witnessing an entire range of revisions concerning the concept and instruments of this policy, reacting to environmental changes, advancing globalisation processes in the food production sector and the fact that the development of agriculture is being determined increasingly by the development of other industries and sectors within internal and external economy, since the mid-1990s. That is why the transition from the administratively easier form of agricultural support in "market" prices of individual commodities based on commodity market orders to the more complicated system of subsidies in accordance with the project-orientated structural support is only logical. This approach requires a certain decentralisation of decision-making processes concerning the principles and allocation of subsidies within the specified limits of financial resources in the Union's budget as well as in national budgets that would loosen the regulation of financial transfers as well as the selection of criteria and support forms within the production sphere of agriculture. In this context, it might be useful to look at one of the experiences related to the utilisation of subsidies on agrarian loans provided by the Support and Guarantee Fund for Farmers and Forestry for Czech agricultural producers.

## REVIEW OF LITERATURE

The transition from the system based upon the market prices support to the system of subsidies in accordance with project-orientated structural support is undoubtedly a positive element, in the short run allowing individual countries to decide on the resolution of their specific agricultural problems and to use a larger proportion of budget resources for this purpose. On the other hand, it may increase the risk of consequences of non-conceptual regulation interventions in the long term.

In general, it concerns *two problems*: the selection of allocation criteria, i.e. the *suitability of subsidies*, in this case mainly in terms of the conceptual promotion of restructuring, as a necessary condition for

further growth of competitiveness on European and global markets, which is the key strategic problem of modern productive agriculture, and the *efficiency of subsidies* related to the determination of transfer forms/instruments and their economic cost. As far as the development of the Union's agricultural policy is concerned, it is impossible to rule out scenarios reacting to requests for a further reduction of subsidies also in the area of production restructuring. That is why it is necessary to try to obtain the highest possible amount from the specified sum of financial means provided by the Union and at the same time, to look for other alternatives of their most effective and maximum utilisation.

### Economic characteristics of basic types of subsidies

Subsidies can be characterised generally as *transfers* reflecting changes in income distribution not related to the flow of goods and services. They are in contrast with non-transfer expenditures, reflected by the value of goods and services flowing in the opposite direction.

The execution of such transfers generally triggers *additional economic expenses* affecting the difference between the amount of financial means spent by the society in connection with the given subsidy policy and the amount received by their recipients (Munk 1989; Henrichsmeyer and Witzke 1994). However, these expenses cannot be defined as a simple difference between the said indicators. Their impact is much broader, as they affect the reflection of real development conditions on particular markets. A part of the economic cost of subsidies results from their ability to interfere with market conditions and to deform market signals (deforming effect).

Nevertheless, the actual amount of deformation expenses depends on the given type of subsidy.

In general, subsidies can be divided into the following four basic groups determined by their form and deforming effects (Bečvářová 1992):

- structural transfers of the entire amount (direct income subsidies),
- proportional subsidies of primary factors,
- output/input subsidies,
- support of market prices.

Each of these types of instruments is characterised by a different combination of the direct cost of the deforming effects and other related implementation expenses. As it is very difficult to measure the cost of deforming effects caused by the impact of the given

type of subsidy on the market conditions, very often only the remaining part of the expenses, i.e. the direct transaction costs and the amount of budgetary resources required (in this connection regarded as indirect costs), is taken into account. Table 1 shows the classification of subsidies according to the structure of their economic cost (Bečvářová 1992, 2000).

The individual types of subsidies in the economic and political context could be characterised as follows:

- *Targeted transfers* of the entire amount do not have a distorting effect on the gathering and transmission of market signals. However, their additional expenses are very high. Their transaction costs are also high because the realisation of their objective (increase of the recipients' income) requires a detailed personal information. Budgetary costs may also become extraordinarily high in the long term. If other types of subsidies are used, a certain part of agricultural producers will be forced to leave the sector after some time, thus having a positive effect on the overall budget. However, structured transfers may not generate this kind of pressure as they are usually granted even to subjects that would be otherwise forced to leave the sector, losing their entitlement to compensations as a result. Unfortunately, the government is unable to investigate the intentions of the individual agricultural producers directly and agricultural producers are not interested in providing such information voluntarily.
- *Proportional subsidies of primary factors* require information distinguishing the factors used for agricultural purposes from those used for non-agricultural purposes. This may mean high transaction costs. At the same time, this type of subsidy distorts the supply of household labour for various

purposes. However, if they are used on a certain level for all factors, i.e. if they are proportional, proportional subsidies of primary factors do not distort production-related decisions within the agricultural sector.

- *Output subsidies* require that the "price cushion" inside the economy be under control. This is relatively easy if they are provided on the level of processing subjects, but very expensive if they are granted to each individual farmer. Indirect expenses are high, even higher than in the case of the subsidisation of primary factors. Deformation expenses are also higher because by distorting supply conditions, output subsidies affect production decisions in the agricultural sector.
- *Input subsidies* are comparable to output subsidies due to their similar deformation effects. This form of support includes certain mechanisms of market orders, such as co-responsibility fees and consumer taxes, as they can be perceived as a combination of taxes and producer subsidies, with the prices charged by the individual producers being lower than the consumer prices. The estimate of costs is, therefore, identical to the output subsidies.
- *Subsidisation of market prices* has been typical for the Union's original Common Agricultural Policy. If applied to imports, it is characterised by the lowest transaction expenses because price differences are monitored only when the products cross the border. On the other hand, its deformation costs are higher than those of the remaining forms of subsidies because the subsidisation of market prices distorts both market production and consumption decisions. If applied to exports, this type of subsidisation requires disproportionate budgetary resources in order to equalise the national and global price levels.

Table 1. Economic costs of various forms of subsidies

Instrument	Direct distortion costs	Direct transaction costs	Indirect costs
Targeted lump-sum transfers	almost none	very high	very high
Proportional primary factors subsidies	low	high	high
Input/output subsidies	high	low	high
Market prices support			
a) exporter	very high	low	low
d) importer	very high	very low	negative
Output quotas with subsidisation of market prices	potentially decreasing	increasing	potentially decreasing
Set-aside with subsidisation of market prices	potentially decreasing	increasing	potentially decreasing

The instruments of agricultural policy imposing *quantitative restrictions*, such as output quotas and set-aside, have their merits because they reduce the use of inputs and thus also the deformation effect of other subsidisation instruments, without cutting down transfers to producers. Although transfers may lower deformation expenses, they increase transaction costs significantly. These instruments themselves create additional deformation effects, which can be higher than the savings of deformation expenses resulting from input reduction.

The assessment of objective costs resulting from the use of different types of subsidies should be, therefore, one of the main conceptual criteria of agricultural policies. However, it is necessary to bear in mind that subsidies are realisation instruments (means) of the particular policies. That is why their selection, based on familiarity with their characteristics and effects, as well as their combination should be preceded by the formulation of clear strategies and their objectives, the study of the environment and analysis of the overall economic situation of the given state and/or integration entity, including its dynamics.

## METHODS

The objective of the article is to assess the utilisation of subsidies within the system of the promotion of capital flow to Czech agriculture through the Support and Guarantee Fund for Farmers and Forestry (hereinafter only the "Fund"), to analyse its efficiency in relation to the overall amount of resources available for restructuring purposes and their allocation and to present the results of efficiency research of this type of support (Bečvářová, 1994, 2005) in terms of the amount of financial resources provided for the sector during the Fund's ten-year history and the method of their allocation, using the theoretical recourse of economic assessment of all determinative forms of subsidies and characteristics of the starting conditions for their utilisation in the course of transformation of our economy as a basis.

As far as *methodology* is concerned, *the issue* is based on the system analysis of the subject of the research using all necessary comparative methods and presented on two levels: as an assessment of individual methodological starting points of the selection of one transfer form in relation to the examined sector in a specific economic situation, including the interactions concerning the dynamics of development of individual instruments used by the Union's common agricultural policy, and in the form of assessment results of the

Fund's activities, in particular its ability to secure financial means for the agricultural sector.

The paper uses information on the system's preparation published in the author's previous materials (Bečvářová 1992, 1994) and above all the results of elaboration of the theoretical-methodological research phase of the given problem, a part of the resolution of thematic direction 04 included in a research project carried out by the PEF MZLU Brno (Bečvářová 2005). Individual analyses are based above all on the Fund's statistical information and annual reports published in the course of its ten-year history (1994–2004).

## RESULTS AND DISCUSSION

### Selection reasons of the examined type of subsidy

The situation of Czech agricultural production in the first half of 1990s was completely different from the situation prior to 1990 as a result of quantitative changes of the economic conditions. The proportion and mechanisms of state intervention changed significantly, with the overall amount of state agricultural subsidies dropping from CZK 21.8 billion in 1989 to CZK 6.8 billion in 1993.

*Direct subsidies*, which were to initiate structural changes, focused above all on the establishment and development of private agricultural enterprises, in particular small farms. In 1993, *more than 86% of the overall amount of budgetary resources designated for agriculture (CZK 5.1 billion)* were allocated to this type of project. Non-investment subsidies provided during that period mainly for subjects farming under the adverse natural conditions and in special regime areas replaced the former differential premiums to a large extent. Direct subsidies related to particular business projects had to be used in the course of one calendar year. Only in 1993 were the recipients of investment subsidies allowed to transfer a part of the provided financial means to their accounts and to use them to finalise their projects in 1994.

Various analyses conducted in this phase indicated that the chosen strategy of utilisation of heavily limited subsidies was not as beneficial as expected for further agricultural development. The system suffered from one of the principal risks of subsidies promoting structural changes and/or paid directly to the recipients, the objectivity of administrative-bureaucratic allocation of financial means, in this case determined by the regional and central commissions of the Ministry of Agriculture of the Czech Republic. The extent to which it was feasible to meet all the

requirements of distribution objectivity and to pay adequate attention to the thousands of presented applications is not an economic issue.

In addition to the risk of subjectivism accompanying the process of allocation of subsidies, the system also suffered from the fact that in many cases, the recipients of subsidies were not sufficiently interested in their effective utilisation and that the merits of many subsidies were dubious, to say the least. The criterion of capital productivity essentially played no role due to the system of financial support used. The realisation of individual business projects was also negatively affected by the fact that subsidy titles as well as the principles of their provision changed every year. As a result, the system was unable to promote any substantial structural change or to create any flow of foreign capital to agriculture.

That is why it was necessary to look for a solution allowing a more efficient allocation of the limited budgetary resources through subsidies and at least partially eliminating the negative impact of subjective interventions in the system. It was obvious that the *adaptation of agriculture to market conditions had to be accompanied by principal changes of its structural orientation and its technical and technological facilities*. At the same time, the extent of production in the Czech Republic was decreasing quickly. It was necessary to ensure that even under such circumstances, or rather precisely under such circumstances, the effectiveness of the individual activities reflecting both natural agro-ecological production conditions and sales conditions on agrarian product and service markets served as the decisive criterion of the new “market allocation” of production (and thus logically also of capital).

The said process was to establish a basis for further enhancement of the sector’s competitiveness, above all through increasing production intensity and unit cost reduction of those products which were marketable on agrarian markets at adequate prices, as well as for further improvement of production quality. An analysis of the agricultural situation in the Czech Republic showed that it was necessary to adopt an immediate solution meeting the following three basic conditions:

- (1) creation of conditions for structural changes concerning the sector as a whole, as well as the activities of the individual primary production subjects through the acquisition of capital for the prospective business projects complying with the objectified criteria,
- (2) procurement of credit resources through enhancement of the industry’s attractiveness to the banking sector,

- (3) utilisation of all budgetary resources designated for agricultural subsidies complying with the requirements for conformable market allocation.

In 1994, a new system was introduced. According to its principles, some of the budgetary resources allocated to agriculture were to be used to subsidise loan interest rate. This concept was to make loans “cheaper” for agricultural producers and at the same time, to reduce the risk of financial institutions in the form of guarantees provided by the newly established Fund. The relevant *risk is spread* amongst all loan participants. The institution commissioned to provide guarantees (and subsidies) on behalf of the state becomes a guarantor (bearer of a considerable proportion of the risks related to the provision of loans for the sector). However, this type of guarantee does not mean that the financial institutions, as creditors, or the subjects engaged in agricultural production or forestry, as debtors, do not bear any risk. First of all, the guarantee does not cover the entire loan. In addition, it is realised only after all other methods of obtaining financial means to repay the loan (or its principal) have been exhausted.

However, as the principal change of the new system, the *decision on the distribution of a certain proportion of state subsidies was transferred from the state to its service organisation and the commercial banks involved*. As a result, each business project applying for state subsidies was subjected to a standard solvency analysis used by the banks in connection with loan applications. The analysis became the basis of the assessments of project viability and loan recoverability. The provision of guarantees also increased the sector’s attractiveness to financial institutions, reducing the risks and thus also the price of loans (interest rates).

The use of state agricultural subsidies as loan guarantees and partial interest rate compensations also resulted in *multiplication effects* because it enabled agricultural subjects to receive more financial means in the form of loans and at the same time, to draw the funds in accordance with the progression of their projects in time.

### **Program orientation of the subsidisation system**

In order to resolve the problem of whether a financial institution is qualified to assess potential clients not only in terms of its own potential losses resulting from incorrect decisions (as in the case of standard commercial loans), but also in terms of losses suffered by the entire agricultural sector as a result of the incorrect utilisation of guarantees, the system of

decision-making included the economic criteria of agricultural policy *on the basis of programme approach* to the utilisation of the Fund's resources.

Basic spheres:

- resolution of the temporary shortage of own financial resources for operational purposes (*OPERATIONS*),
- long-term financial support of the prospective projects related to efficiency improvement and restructuring of agricultural and forestry companies (*FARMER*), later including investment development of services for basic production (*SERVICES*).

The guarantees provided as a part of the aforementioned basic programmes covered 50–85% of the loan principal (depending on the given type of the programme and the length of the repayment period). Interest subsidies were published by the Fund's Board of Directors every quarter and remained valid for the entire duration of the loan relationships within the said basic programmes. The recipients complying with the terms of the special optional programmes *LANDSCAPE*, *YOUTH* or *AGRO-REGION* were able to apply for even higher interest subsidies.

Although the Fund was originally designed to provide two types of subsidies, with the additional support for young farmers and subjects farming under severe natural conditions, its finances were later used for an entire range of other purposes.<sup>1</sup> That is why the system was reassessed in mid-1999 and reduced to five programmes only, with the following structure implemented and used until 2002:

- *OPERATIONS* – short-term support focused on the resolution of seasonal shortages of operational funds,
- *INVESTMENT* – long-term support focused on the realisation of investment projects related to restructuring and efficiency improvement of production and processing activities (*FARMER* for creation of conditions for the further expansion of basic agricultural producers, *PROCESSING SUBJECT* – support of competitive processing organisations and *TRADE ORGANISATION*),
- *HYGIENE* – support of the veterinary and hygienic investments for the plants processing animal products,
- *YOUTH* – support of entrepreneurs under 40 years of age farming on family farms in concurrence with

the *OPERATION* or *INVESTMENT* programmes (see above),

- *EXPORT* – export promotion of the selected agricultural commodities.

In 2002, the *EXPORT* programme was “put on hold”, with no commodities promoted. It was terminated in 2003, together with the *OPERATION* programme, due to its incompatibility with the Union's conditions regulating the provision of national subsidies. However, the *YOUTH* programme, together with all investment programmes, whose subsidies applied only to investments not regarded as acceptable expenses within the Operational Programme of Rural Development and Multifunctional Agriculture, remained available.

New initiatives included the *LAND* programme, whose objective was to promote purchases of agricultural land (and to a limited extent, also woodland) not owned by the state, including permanent crops, and the *COMPENSATION OF INTEREST ENCUMBRANCE* programme, whose objective was to equalise the level of interest on loans provided for agricultural producers and the level of interest on loans provided to other clients.

### Results of the subsidy multiplication system via the Fund

Since its establishment in March 1994 until 2004, the Fund received 24 914 applications for loan subsidies. 23 157 applications were approved. In total, 56 financial institutions, including branches of foreign banks, took part in this system. Among the largest participants, there were the Komerční banka (loans totalling CZK 39 million), the GE Money/Capital Bank (CZK 15 million), the Česká spořitelna (CZK 14 million), the ČSOB (CZK 8 million), the Citibank, the Raiffeisenbank, the Volksbank CZ and the Waldviertler Sparkasse.

The *overall amount of loans provided* for agricultural subjects through this form of subsidy *totalled CZK 95.956 billion*.

Loan guarantees (in accordance with the terms of the individual programmes and the necessity to participate in security) amounted to CZK 29.869 billion. The overall sum of the pledged subsidies

<sup>1</sup> For instance, support of the material settlement of restitution and transformation liabilities (*RESTITUTION*), guarantee of the first interim payment for assets acquired in accordance with an approved privatisation project, whose settlement was required by the Governmental Resolution No. 393 of 1994 (*ACQUIRER*), 30% guarantee of loans provided for co-operative farms and their successors acquiring assets and liabilities in the course of the privatisation of state farms, designated for the settlement of old loans (permanently turning inventories), etc.

Table 2. Results of the Fund's activities and loan support structure in 1994–2004

Year	Number of applications	Thereof approved	Procured loans (CZK thousand)	Provided guarantees (CZK thousand)	Provided subsidies (CZK thousand)	Paid subsidies (CZK thousand)
1994	2 605	2 388	6 235 000	1 544 000	1 265 834	286 000
1995	2 945	2 739	10 129 188	4 435 827	2 427 483	721 837
1996	3 426	3 252	14 847 018	8 265 145	4 390 098	1 818 848
1997	2 540	2 340	14 621 999	4 788 407	2 984 375	2 701 982
1998	1 934	1 735	9 298 509	2 307 321	2 002 714	2 681 904
1999	1 746	1 493	7 694 662	1 137 950	1 422 756	2 208 197
2000	1 539	1 425	5 323 554	876 216	760 540	1 605 840
2001	1 723	1 671	6 369 317	1 129 122	1 005 174	1 332 852
2002	1 993	1 920	7 361 236	1 364 895	1 036 833	1 266 851
2003	1 802	1 723	6 088 453	1 713 539	589 350	963 952
2004	2 661	2 471	7 996 436	2 306 525	571 844	919 154
Total	24 914	23 157	95 965 372	29 868 947	18 457 001	16 507 417

Source: SGFFF, Annual Reports 1994–2004

totalled CZK 18.457 billion. By the end of 2004, CZK 16.507 billion were paid out in the form of loan interest subsidies.

For basic information on the Fund's activities in the individual years see Table 2.

The highest amount of applications was presented in the first years after the Fund's establishment, with the absolute maximum reached in 1996. After this, the number of applications started decreasing. The lowest number of applications was presented in 2000

because at that time, it was not clear how the system would be affected by the country's accession to the European Union, in particular by our adoption of the Union's Common Agricultural Policy. As soon as this problem was resolved (in 2001), the number of the presented (approved) applications increased again.

In 2004, the Fund recorded a further growth of the presented applications. The rate of success of individual applicants amounts to approximately 95%.

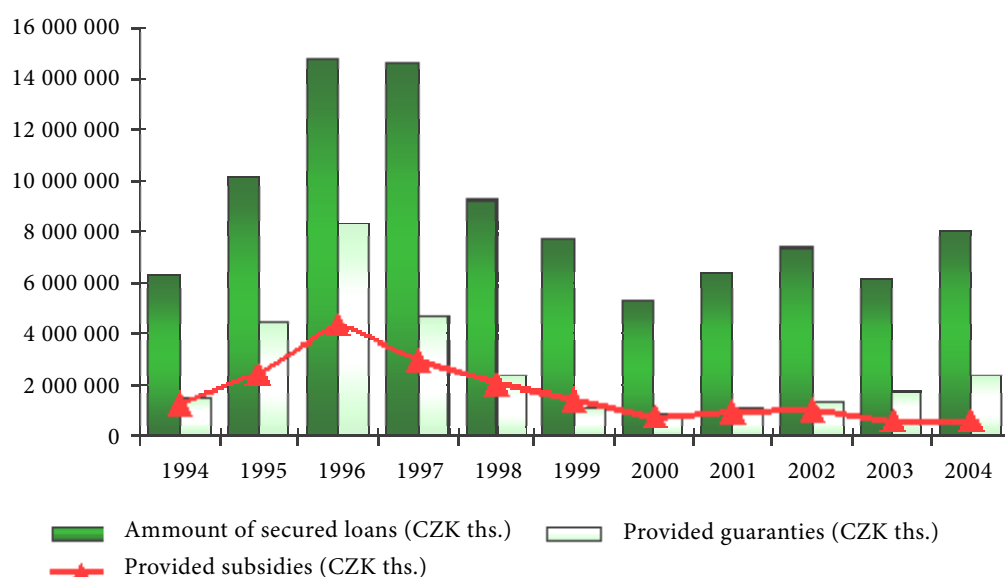


Figure 1. Amount of provided loans, guarantees and subsidies used

Figure 1 shows how *efficient the incorporation of subsidies into the system* was. It is clear from the comparison of all newly granted loans in the individual years and the amount of subsidies on loans provided as a part of the Fund's programmes (see the curve) that *this type of transfer, i.e. subsidisation of one basic factor (capital), was highly effective in terms of the multiplication of resources allocated to the agricultural sector.*

The figure also indicates the development in the individual years. It characterises the changes of loan market conditions in the Czech Republic (especially the decrease of loan subsidies resulting from the reduction of interest rates). However, the aforementioned change of loan market conditions affecting the system of subsidies occurred as late as 2003, when commercial interest rates dropped significantly. At the same time, financial institutions started requiring higher and better security in the form of guarantees in order to limit their risks.

The relatively high demand for loan guarantees is obvious in the first four years and then at the end of the assessed period (at this time, most loans were of the investment character, with this type of loan

being preferred by the system and promoted by the existing terms and conditions).

*During the Fund's existence, the agrarian sector received more than five times as many financial means through subsidies on loans than it would have received through their direct allocation.*

From the **structural point of view**, the proportion of the individual programmes confirmed the original assumption that the applicants would be interested principally in loans designated for investments in technology and the long-term development concepts of their companies. This is illustrated by Figure 2, showing the respective shares of the main programmes in the overall amount of loans provided in the reviewed decade.

As shown by the aforementioned proportions, the most popular programmes were Operations, Investments and Export. Their impact was overwhelming, even though the Export and Operations programmes had to be terminated in connection with the EU Common Agricultural Policy. The largest share of the overall sum of provided a loan by far was taken by *investment programmes* (54%), followed by the Operations programme (almost one third of all loans provided in the past decade).

The fact that the system did not prefer just certain **entrepreneurial forms** is supported by the details specified in Table 3.

Private farmers presented the highest number of applications for loans subsidised by the Fund. As far as the *amount* is concerned, the subjects having higher amounts of farmland, mostly joint-stock corporations and co-operative farms naturally received the largest loans.

On the other hand, the proportion of the provided guarantees and subsidies in comparison with the amount of secured loans concerning the said subjects

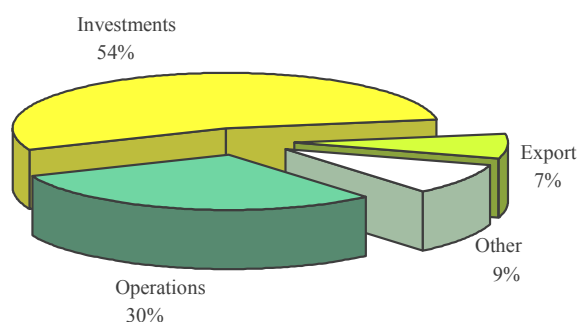


Figure 2. The structure of loans in accordance with the main programmes

Table 3. Utilisation of subsidies according to individual types of organisations since the Fund's establishment as of 31 December 2004

Type of organisation	Number of application	Thereof approved	The amount of provided loans (CZK thousand)	Provided guarantees (CZK thousand)	Provided subsidies (CZK thousand)	Paid subsidies (CZK thousand)
Private farmers	8 115	7 403	14 276 113	5 837 300	3 653 791	3 203 976
Limited company	4 602	4 174	17 047 518	7 085 357	3 414 809	3 136 404
Joint-stock corporation	5 679	5 402	38 057 853	9 230 119	6 373 861	5 649 302
Co-op. farm	6 330	6 020	25 765 517	7 504 300	4 873 608	4 391 268
Other	188	158	818 371	211 871	140 932	126 467
Total	24 914	23 157	95 965 372	29 868 947	18 457 001	16 507 417

Source: SGFFE, calculations by the author



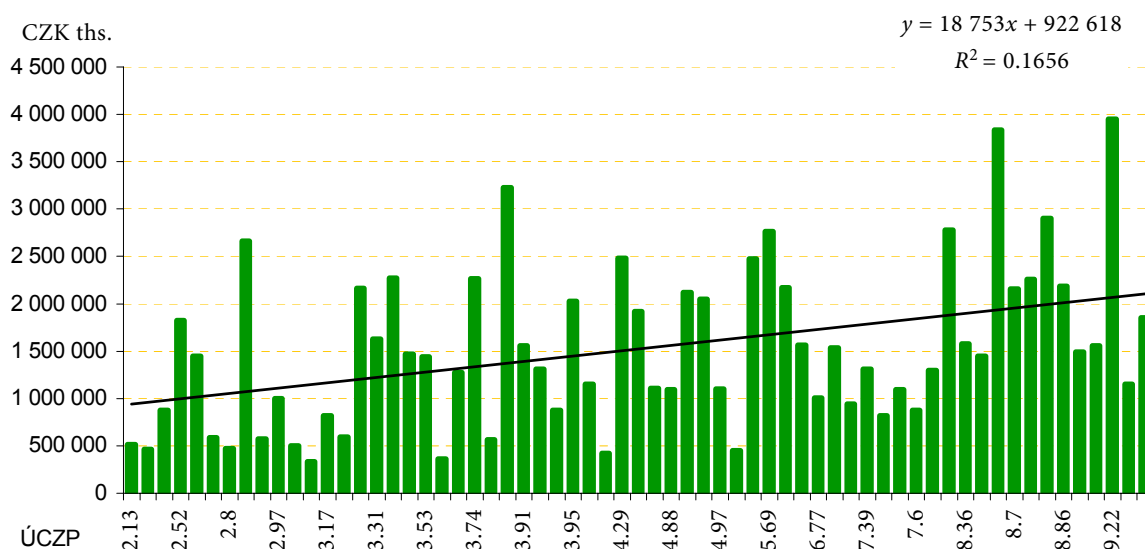


Figure 3. The accumulative amount of loans allocated in individual districts

Source: Statistics of the SGFF CR, the Ministry of Agriculture of the Czech Republic: the Agricultural Land Study, 2003; calculation and analysis by the author

ÚCZP = official prices of farmland

was considerably lower. Most guarantees were granted to limited companies and private farmers regarded by the banks as a high-risk segment.

**Regional aspect:** There was a certain apprehension concerning the application of objectivised allocation criteria by the banks, with companies farming under worse agro-ecological conditions fearing potential discrimination. However, the results of our research (Grega et al. 2004) concerning the decreasing impact of natural conditions on the economic efficiency of agricultural companies were confirmed even in this case.

Our analyses indicate **no significant connection** between the quality of natural conditions and the amount of the provided loans in relation to loan allocation.

This fact is illustrated by Figure 3, showing the amount of loans subsidised by the Fund granted during the period 1994–2004 in the individual districts set in ascending order according to farmland quality.

Figure 3 clearly shows that in spite of the slightly increasing amount of subsidies granted to producers farming under better natural conditions, the economic results of the individual companies and the *quality of the projects enclosed with their applications*, rather than the quality of land, *determined the provision of loans and the utilisation of subsidies*. This conclusion is also supported by the following results of a more detailed examination of the regional allocation of loans.

Table 4. Examples of utilisation of the maximum and minimum amounts of loans in districts with different natural conditions (determined by the official prices of the land)

Utilisation of the Fund's support		NUTS IV – districts
MAXIMUM SUPPORT – conditions	best (CZK 7–9.81/m <sup>2</sup> )	Znojmo, Mladá Boleslav, Olomouc, Praha
	average (CZK 4–6.99/m <sup>2</sup> )	Opava, Ústí nad Orlicí, Svitavy
	worse (CZK 2.13–3.99/m <sup>2</sup> )	České Budějovice, Žďár n. Sázavou, Havlíčkův Brod, J. Hradec, Pelhřimov
MINIMUM SUPPORT – conditions	best (CZK 7–9.81/m <sup>2</sup> )	Uherské Hradiště, Kladno, Mělník, Kolín
	average (CZK 4–6.99/m <sup>2</sup> )	Beroun, Náchod, Česká Lípa, Pardubice
	worse (CZK 2.13–3.99/m <sup>2</sup> )	Děčín, Semily, Ústí n. Labem, Trutnov, Liberec, Rokycany, Zlín

Source: SGFF: loan statistics, the Ministry of Agriculture of the Czech Republic: the Agricultural Land Study, 2003  
calculation and analysis by the author

## CONCLUSION

On the basis of activity analysis of the Support and Guarantee Fund for Farmers and Forestry (SGFFF) in connection with the financing of the agrarian sector, it is possible to state that the Fund affected the sector in a positive manner, above all by securing immediate financial resources in the period of its restructuring. Thanks to the use of the subsidised loans, *it was possible to multiply the limited amount of subsidies available for the sector. This type of loan also became the main resource of external financing with no significant deformation impact on the agrarian market.* While as of 31 December 2004, the accumulative amount of secured loans totalled approximately CZK 96 billion, the sum of guarantees reached CZK 30 billion and the overall amount of subsidies provided for the sector totalled CZK 18.5 billion.

It is also interesting that the *allocation of subsidies truly did not depend on the quality of land conditions, reacting to economic criteria instead* (the level of support was considerably uneven under all conditions). This fact supports our conclusion that the impact of agro-ecological conditions on the rate of success of a particular agricultural company, operating in the Czech Republic since 1994 and in the past decade turning into an inherent part of subsidies in the agricultural sector, has been decreasing. The Fund's merits culminated in the mid-1990s, when its guaranteed loans with the partial interest subsidies represented essentially the only resource of financial means for operating purposes as well as the first restructuring measures. On the other side, the universal banks' criteria of loan risk level evaluation including its payoff possibilities have not been sometimes sufficient for the decision making process of the best allocation of agricultural subsidies from the economic and strategic point of view. Moreover, the extremely high Czech agricultural companies' indebtedness has been deepened via the system. Consequently, the enhancement of the bulk of subsidy as well as the acceptance of the EU CAP instruments provided for the exact determination of the agricultural loan support role in the new millennium, when it helps competitive subjects operating within the agrarian sector to finance their special investments in new efficient structures.

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