

3rd OECD Workshop on Reforming Environmentally Harmful Subsidies

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**Evaluation of subsidies
for industrial zones
in the Czech Republic**

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Analyses of public subsidies in the CR

- 2001 – 2002 project “**Analysis of public subsidies** with adverse impact on the environment“
 - stocktaking of the all the subsidies
 - short description and characteristics
 - simplified evaluation of their environmental impacts
 - draft of a methodology for the more detailed evaluation
- Chosen/recommended subsidies are **analysed in greater detail** step by step
- Coordination: **Department of Environmental Economy in CENIA**, Czech Environmental Information Agency (former Czech Environmental Institute)

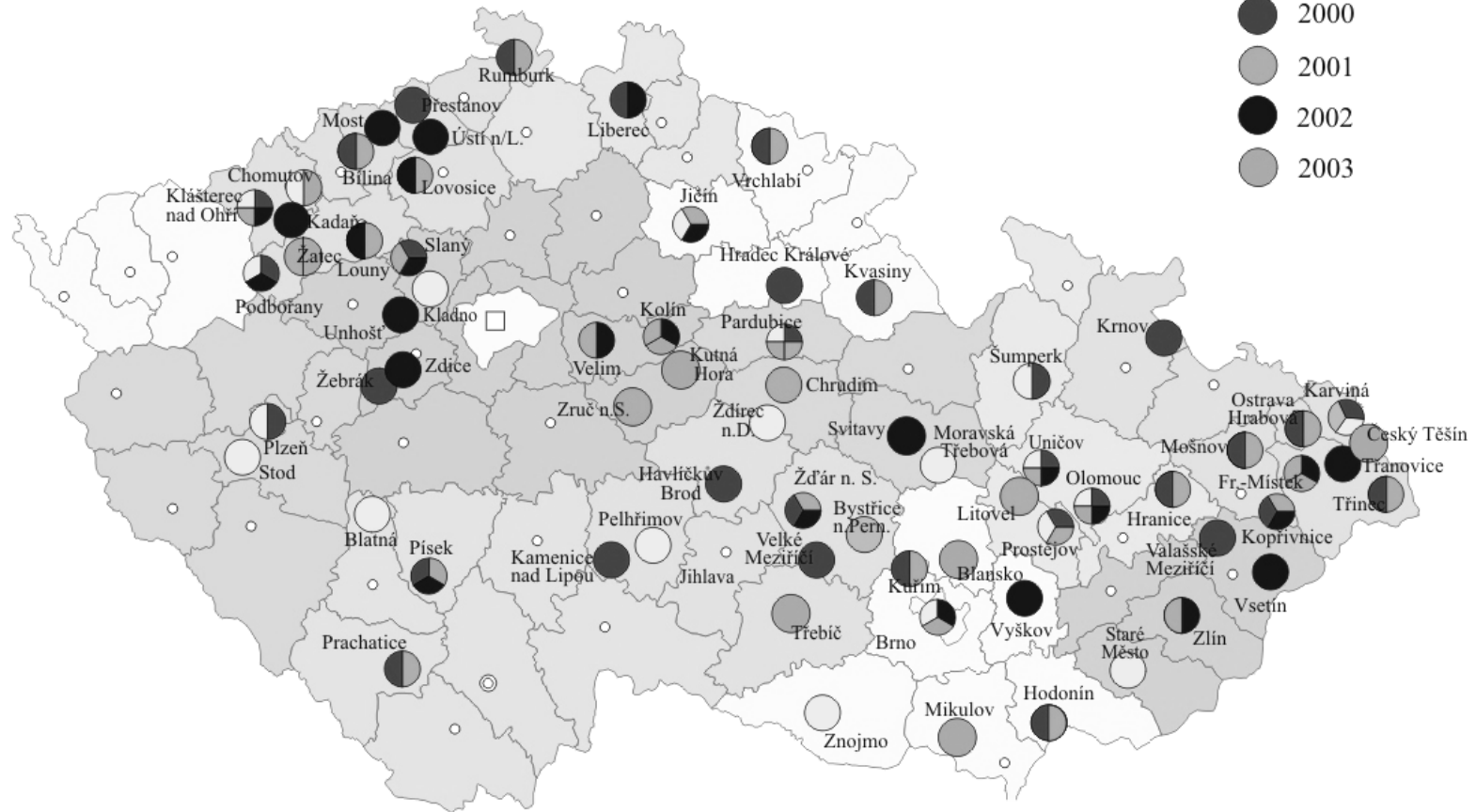
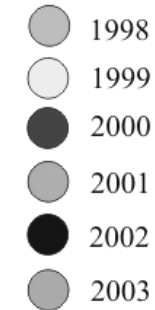
Basic information about the subsidy for industrial zones

- provided **since 1998** by the Ministry of Industry and Trade
- in the form of **grants** or returnable financial support
- “Program of support for development of industrial zones” contains the **four subprogrammes**: Preparation IZ, Reclaiming of IZ, Development and reconstruction of rental properties, Accreditation of industrial areas
- the recipients of the subsidy: predominantly **municipalities**
- administered by **CzechInvest Agency**
- from 1998 to 2004, in total **85 industrial zones** were supported with the total amount of **4.5 bil. CZK (150 mil. EUR)**
- more than **200 foreign and domestic companies** developed their production plants on the areas of industrial zones; these firms claimed to create approximately **60 thousand new jobs** and to invest more than **130 billion CZK (4 400 mil. EUR)**

Podpora rozvoje průmyslových zón 1998 - 2003

Development of industrial zones 1998 - 2003

Zahájení/Started in



Impact on the environment (1)

- During the allocation phase of the subsidy the **criteria evaluating the impact of the realisation of the project on the environment is not sufficiently taken into account.**
- No priority or encouragement to protect the environment is taken account in the **strategic documents** of the subsidy programme.
- There are no obligations for environmental protection measures once the **industrial zones are operating.**
- Negative impacts from the operation of **further infrastructure** etc. do arise, because the planning of the latter often happen on an ad hoc basis and *after* the actual investment had been approved.
- The **background material for the EIA** are therefore often very general and consider financial means *already invested* and the „public interest“.

Impact on the environment (2)

- There are no mechanisms to prefer the investments on **brownfields** to investments on **greenfields**, a positive trend is not even to be seen in the overall strategy.
- The **opportunity costs** of the given area are not taken into account. The investment into the industrial site is a non-reversible process, which means the site will not be available for any other use in the following years.
- The main goal of the Programme is the **support of business activity** and the **creation of jobs**. There is, however, no methodology to evaluate the actual number of newly created jobs (it is always referred to the *claimed* number of jobs).
- The efficiency of the industrial zones is evaluated very generally, for **all projects together**. It can therefore happen, that cost-inefficient projects remain unobserved.
- The **economic lifetime** (the **actual period of operation**) of the industrial zone (including the risk of the investor leaving after his tax breaks finish) is not taken into account.

Recommendations for the Ministry of the Environment

- Maintain the right to **evaluate project outlines** of projects whose evaluation is carried out by the regional government. (according to Act No. 100/2001 Coll. on environmental assesment).
- Open a dialogue with the Ministry of Industry and Trade (guarantee of the Programme) on the adding of **further envrionmental prerequisites** necessary for the registration of a project.
- Suggest and entrust **specialised subjects**, that will in cooperation with the local government control the priorities of sustainable development defined for that given area.

Recommendations for the Ministry of Trade and Industry

- Develop a system of investment incentives, which would lead to the **support of investments on brownfields** and discourage investments on greenfield areas.
- Conduct of an own **evaluation** of all so far supported industrial zones, which would analyse the real impact of the realisation and the operation of the project. Then compare the results with the primarily established indicators.
- Introduce relevant **environmental criteria** into the attachments, which are used for the evaluation of the registration of the given investment.
- Establish a **set of criteria** for the registration of strategical industrial zones, which are not evaluated according to the criteria in the attachments.

Recommendations for CzechInvest

Agency

- **Evaluate** the given subsidy **individually**. No „bundled“ evaluation for the whole set of projects.
- Conduct an **analysis** regarding the **lifetime of projects**, which should include the entire period during which the investor will carry out his activities (investment lifetime) and also for the period, during which the industrial zone will be in operation (economic lifetime). On the basis of this data the efficiency of the public funding should be evaluated.
- Update the „Strategy of the CzechInvest Agency for 2004-2006“ with regard to the fact, that every at present realised industrial site will become a grey zone in the future and require **financial resources for its recultivation**.

Recommendations for local authorities

- Create a **long-term strategy** of spatial development with regard to good conditions for enterprise, housing, leisure, tourist industry and so on. A balance between the three areas of economic development, social matters and environmental issues should be found.
- Require rigorous evaluation of possible alternatives **for the use of the industrial zone** from the investor or project documentation author (including secondary impacts on medium and small enterprises in the region)
- Take part in the **EIA process** in an active way and insist on the inclusion of the enterprise operation in all relevant parts of the evaluation process.
- Promote, together with the other self-governmental bodies, that problems and weak features of **long-term development** of given municipalities are taken into account for all state subsidy programmes so that no state subsidy will create problems for the development of the given region.

Who and what are the main drivers for subsidy reform?

- initiator of the reform is the **Ministry of the Environment and environmental NGOs**
- other subjects interested in providing the subsidy should **cooperate** - these are the Ministry of Industry and Trade, the CzechInvest Agency and local bodies
- in the final phase, the **Ministry of Finance** will play an important role (the subsidy is provided by the state budget)

What are the main obstacles to subsidy reform?

- insufficient **justification** of environmental protection
- **preference for economic development** to environmental protection
- **conflict of interests** (among different stakeholders)
- **surplus of offer of industrial zones** compared to demand from investors

What approaches are most effective in reforming subsidies?

- suggestion of **specific measures** (have been presented)
- communicate the suggestions with the responsible institutions and **jointly promote** them
- assert also **partial changes** and adjustments (those can have a strong effect, too)

What are the results of subsidy reform? Who are the main winners and losers?

- improvement of the **environment** (short-time and long-time effects)
- **more effective subsidies** (public sources savings, more efficient allocation, more benefits for the state and region, etc.)
- **winners: regions** – improvement of conditions especially in the field of the quality of environment;
state (state budget) – more effective allocation of financial resources
- **losers: investors** – restrictions of some benefits