

# Methodology of subsidies evaluation

Investment subsidies case

Nur-Sultan 2021

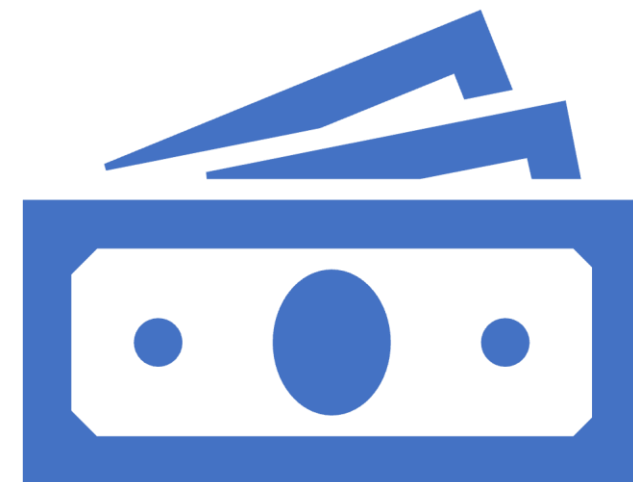


Deutsch-Kasachischer Agrarpolitischer Dialog  
Германо-Казачо-стандарттық аграрно-саясаттық диалог

With support from



by decision of the  
German Bundestag



Speaker: Dauren Oshakbayev

# Why?

What is the effectiveness of state support for the agro-industrial complex?

- how to measure?
- what are the methodological approaches?

информационно-аналитический портал Ratel.kz

Депутат Куришбаев: Субсидии в АПК увеличились в 85 раз ...

Депутат сената парламента Ахылбек КУРИШБАЕВ, выступая на заседании сената с участием премьер-министра Аскара МАМИНА, ...

2 недели назад



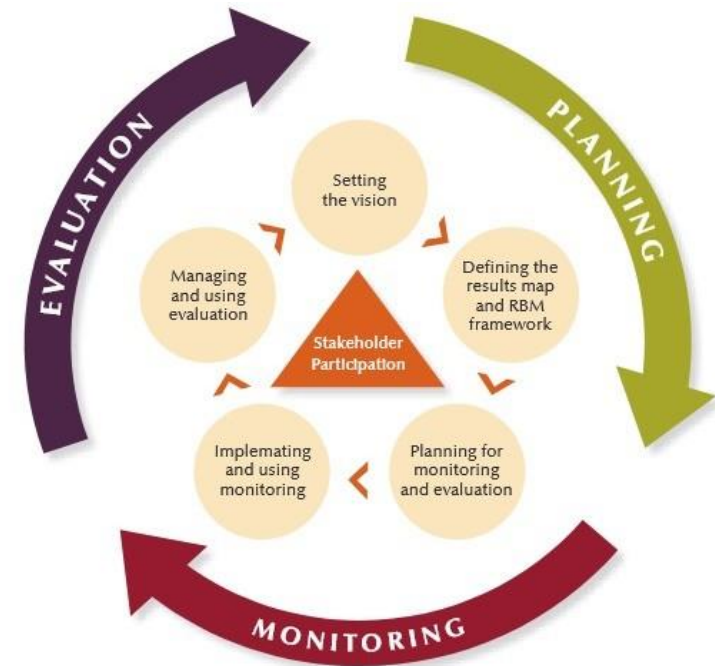
2020

НУР-СУЛТАН. КАЗИНФОРМ - Министерством финансов разработана информационная система для мониторинга эффективности мер государственной поддержки, в том числе субсидий. Об этом сообщил министр финансов РК Ерулан Жамаубаев, передает корреспондент МИА «Казинформ».

2021

# Subsidies in the context of strategic planning

- Subsidies are the economic policy instrument.
- Evaluation is part of results-based management (RBM)
- In RBM, evaluation of subsidy effectiveness = evaluation of the program effectiveness.
- RBB is an inseparable part of RBM



Source: UNDP, *Handbook on Planning, Monitoring and Evaluating for Development Results*, 2009.

Key elements or phases of results based management include:

- i. Identifying clear and measurable objectives (results), aided by logical frameworks.
- ii. Selecting indicators that will be used to measure progress towards each objective.
- iii. Setting explicit targets for each indicator, used to judge performance.
- iv. Developing performance monitoring systems to regularly collect data on actual results.
- v. Reviewing, analyzing and reporting actual results vis-à-vis the targets.
- vi. Integrating evaluations to provide complementary performance information not readily available from performance monitoring systems.
- vii. Using performance information for internal management accountability, learning and decision-making processes, and also for external performance reporting to stakeholders and partners.

# Evaluation vs Monitoring

Evaluation	Performance measurement
<ul style="list-style-type: none"><li>• <b>Look "under the hood" of the car to explain or improve its characteristics.</b></li><li>• Typically periodic.</li><li>• Done by neutral evaluators who work outside of the programs.</li><li>• Focuses on explaining whether, why and how a program or policy works, as well as what results can be attributed to the program itself.</li></ul>	<ul style="list-style-type: none"><li>• <b>By analogy, a car's dashboard, informing about speed, engine temperature and fuel levels</b></li><li>• Ongoing.</li><li>• Done by program managers.</li><li>• Uses performance indicators and progress compared to targets to assess performance.</li></ul>

# Evaluation criteria proposed by the Development Assistance Committee of the Organization for Economic Cooperation and Development:



relevance



effectiveness



efficiency



impact



sustainability

# Main evaluation criteria

## 1. Relevance

- **How the activities and results respond to the overall goal and objectives;**
- How adequate are the objectives of the program;
- Whether the activities and results of the program correspond to the expected effects and impact.

## 2. Effectiveness

- **To what extent the objectives have been / will be achieved;**
- What are the main factors that affect the achievement or non-achievement of tasks.

## 3. Efficiency

- **Measures the result, qualitatively and quantitatively, in relation to investment.**
- Evaluated:
- *how economically efficient was the activity in terms of the ratio of returns to costs;*
  - *are the objectives achieved in a timely manner;*
  - *whether the most effective approach to the implementation of the program or project was used compared to the alternatives.*

Evaluation use:  
Investment subsidies  
case

# What are the investment subsidies?

01

introduced in 2014 as part of the Agribusiness - 2017 program

02

one of the measures of state support for investors implementing an investment priority project.

03

this is the reimbursement of expenses paid for the purchase of equipment and construction installation works for the creation of new / expansion of existing capacities.

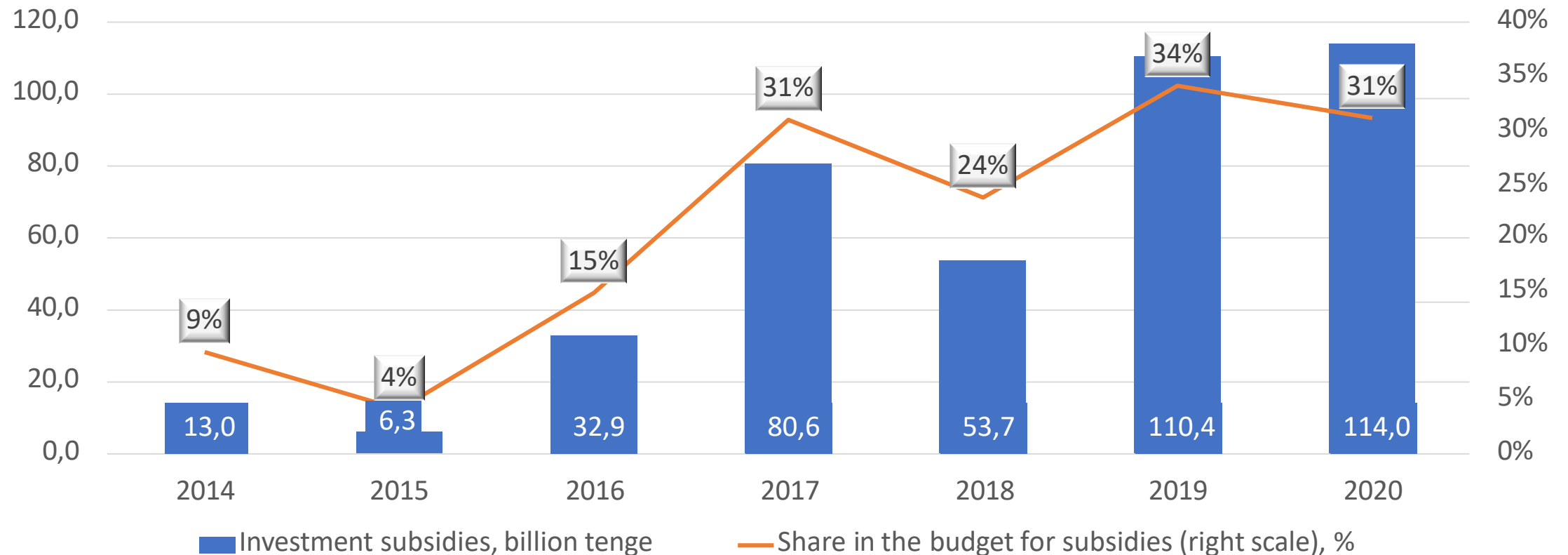
04

paid for priority activities in the agricultural sector



# In recent years, a third of state support for agriculture has been directed to investment subsidies

Budget expenditures on investment subsidies for 2014-2020, billion tenge



Relevance

# Program goals since 2017

Program	Goal
Agribusiness 2017	Creation of conditions for improving the competitiveness of the subjects of the agro-industrial complex of the Republic of Kazakhstan
State Program for the Development of the Agro-Industrial Complex of the Republic of Kazakhstan for 2017-2021 Initial version	Ensuring the production of competitive agro-industrial complex products in demand in the markets
State Program for the Development of the Agro-Industrial Complex of the Republic of Kazakhstan for 2017-2021 Current version	<ul style="list-style-type: none"> <li>• Increase in labor productivity in the agro-industrial complex and export of processed agricultural products by at least 2.5 times.</li> <li>• Improving the competitiveness of the agro-industrial complex by increasing labor productivity, as well as exporting processed products</li> </ul>
National Agro-Industrial Complex Development Project the Republic of Kazakhstan for 2021-2025	Creation of a competitive agro-industrial complex by increasing labor productivity by two and a half times, increasing the export of agro-industrial complex products by two times and providing socially significant food products of domestic production

*The goals are changing, but the context is the same:  
increasing the competitiveness of the agro-industrial complex.*

# Objectives of the programs for the achieving of which investment subsidies are applied

Program	Objectives
Agribusiness 2017	Increasing the availability of goods, works and services within the framework of the implementation of priority investment projects
State Program for the Development of the Agro-Industrial Complex of the Republic of Kazakhstan for 2017-2021 Initial version	Effective use of financial measures of state support
State Program for the Development of the Agro-Industrial Complex of the Republic of Kazakhstan for 2017-2021 Current version	Increasing the availability of financing for agro-industrial complex entities and ensuring optimal taxation regimes for agro-industrial complex entities
National Agro-Industrial Complex Development Project the Republic of Kazakhstan for 2021-2025	Objective 4. Stable increase of incomes of 1 million rural residents through the formation of 7 large ecosystems and the implementation of investment projects

*Tasks change, but investment subsidies remain*

# State program of the agro-industrial complex of the Republic of Kazakhstan for 2017 - 2021: what tasks could the investment subsidy solve?

Task	Relevance of investment subsidies
1) Ensuring food security	Indirect. Investment subsidies could help solve, for example, the problem of ensuring the physical availability of food - through the construction of storage infrastructure. Or through investment in food safety.
2) Increasing the availability of financing for agribusiness entities and ensuring optimal taxation regimes	Indirect. The instrument may be related to increasing the availability of financing, given that the Rules allow the use of the subsidy as an initial payment for leasing, which, however, cannot be called the main way of the subsidy application.
7) Increasing the level of technical equipment and intensification of production	High. Investment subsidies are widely used in subsidizing the purchase of agricultural machinery and equipment.

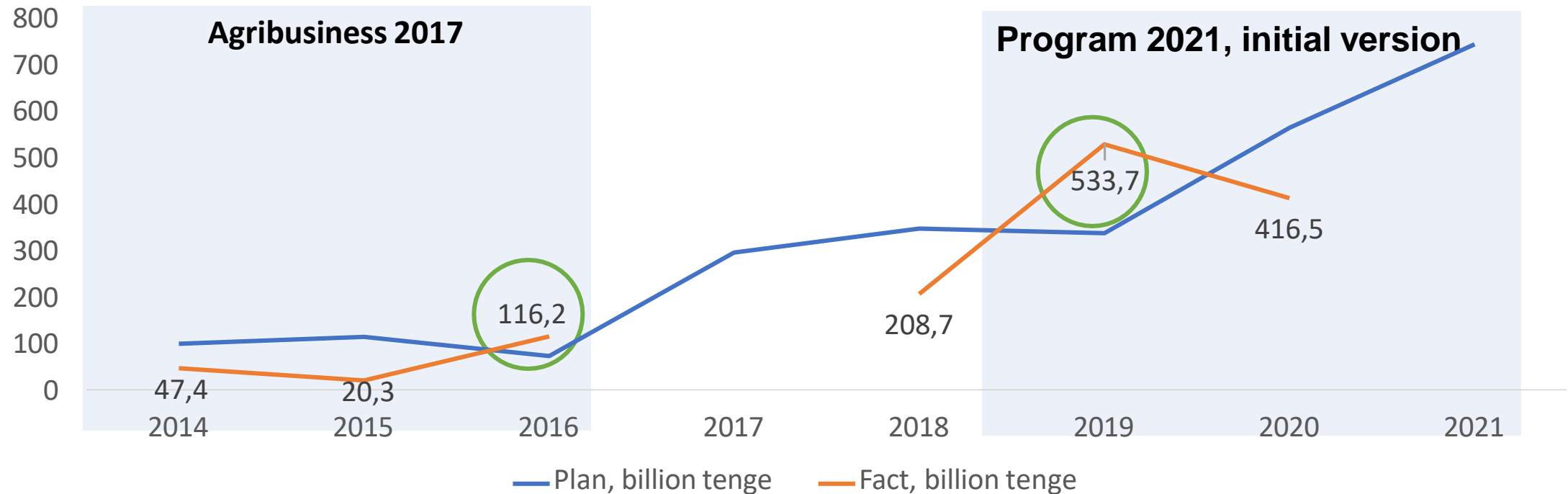
Effectiveness

# Indicators of the result of investment subsidies in various programs

Program	Name of the event	Result indicator
<b>Agribusiness 2017</b>	Increasing the availability of goods, works and services as part of the implementation of priority investment projects	The value of attracted investments through investment subsidies
<b>Program 2021, initial version</b>	Implement subsidies to reimburse part of the costs incurred by the subjects of the agro-industrial complex with investment investments	Volume Index of investments in fixed assets in agriculture, in food production
<b>Program 2021, current version</b>	Subsidizing to reimburse part of the costs incurred by the subjects of the agro-industrial complex, with investment investments	The value of attracted investments through investment subsidies
<b>National project</b>	Investment subsidies for projects in the agro-industrial complex, including on the basis of sustainable development in accordance with the principles of green growth	<p>The value of attracted investments in fixed assets in agriculture</p> <p>The value of attracted investments in fixed assets in food production</p> <p>Number of investment projects covered by subsidies, units</p>

# Out of five years, in two the plan was fulfilled (2016 and 2019).

Achievement of results on value of attracted investments through investment subsidies



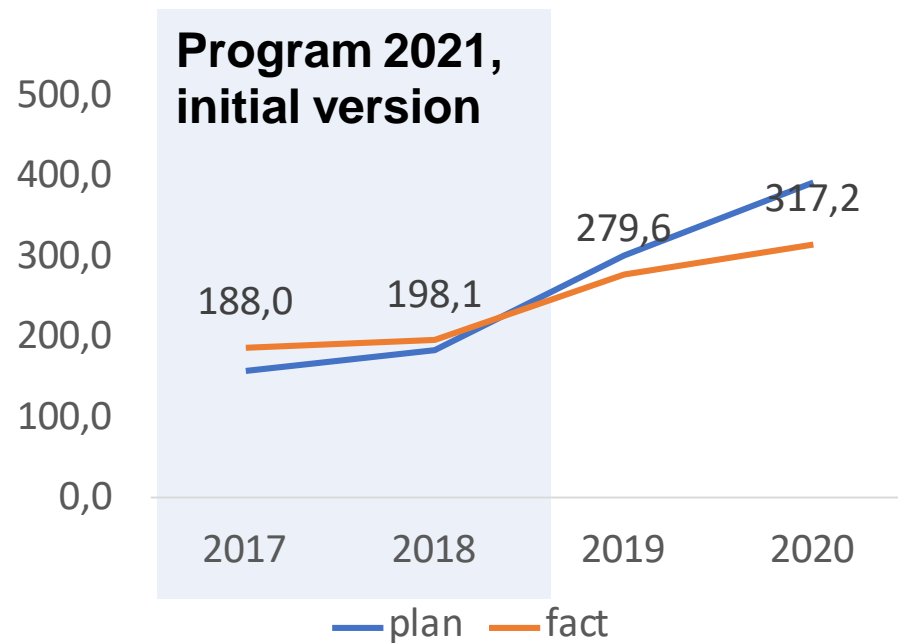
*The Ministry of Agriculture indicates underfunding of programs as the reason for non-fulfillment*



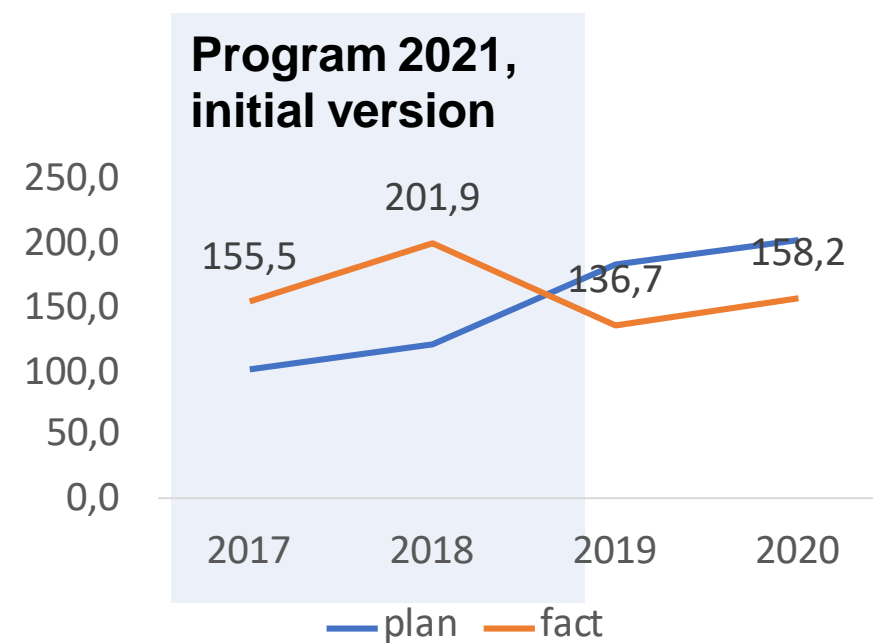
# Out of three years, in two the plan was fulfilled (2017 and 2018).

Achievement of results on Volume Index of investments in fixed assets ,%

### Agriculture



### Food production



Efficiency

# Efficiency measurements

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operational efficiency - how well the activities are administered from the point of view of the beneficiaries.

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cost efficiency - how much the costs of implementation correspond to the effect provided.

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efficiency as impact - to which degree intervention allows to provide the desired positive effect.

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# Operational efficiency

- Frequent rule changes: changed 15 times within 7 years.
- Both subsidizing procedures and the selection criteria and priorities are changing.
- The lack of financing does not always allow to fully meet the obligations assumed.
- The problem of the order of execution of applications.
  - can be distributed evenly.
  - can be distributed through the lottery.

# Before / After Analysis: For every dollar of subsidies attracted \$1.9 of additional investment

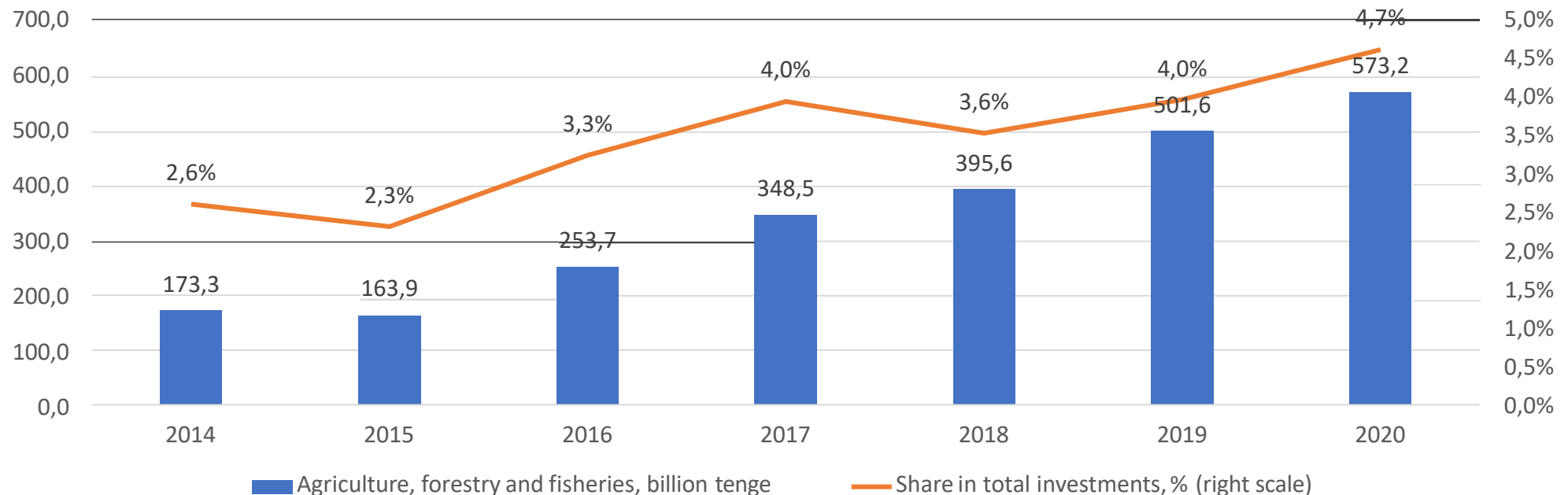
Comparison of investment growth during the period of application of subsidies with the previous period, billions of US dollars

	2009-13	2014-18	Growth
Agriculture, forestry and fisheries	3.66	4.66	1.01
Food production	1.18	1.32	0.13
<b>Total investment growth:</b>			<b>1.14</b>
<i>Investment subsidies for the period</i>		<i>0.60</i>	<i>0.60</i>

*What can be the efficiency of alternative use of public budget? For example: road construction, social infrastructure in rural areas.*

Since 2015, investments in agricultural have grown continuously, and the share in total investments in the economy has grown.

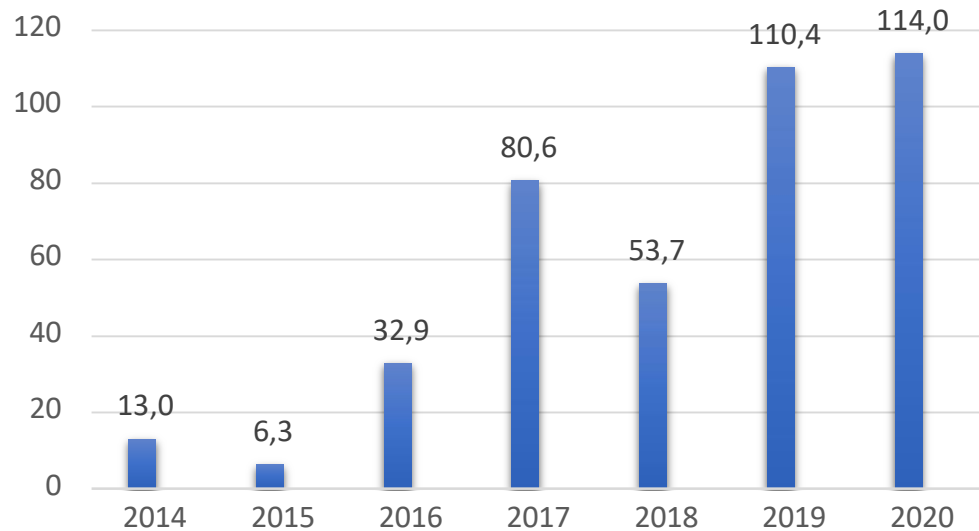
Investments in fixed capital of the sector "Agriculture, forestry and fisheries", billion tenge and the share of the sector in investments in the economy, %



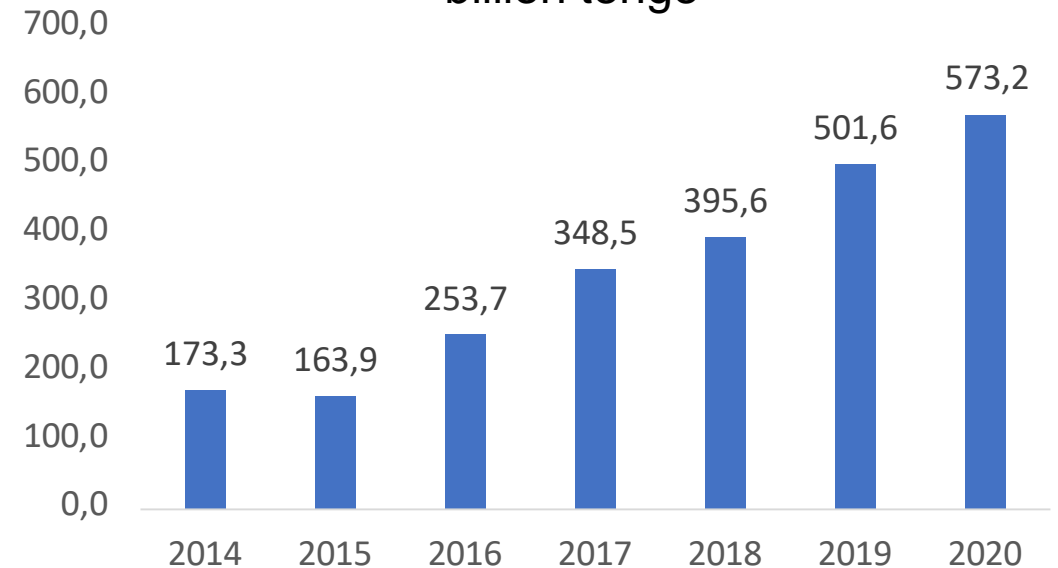
*Or maybe concessional lending had more impact?*

# There is a high correlation between investment subsidies and investments in fixed capital of agriculture

Budget expenditures for investment subsidies, billion tenge



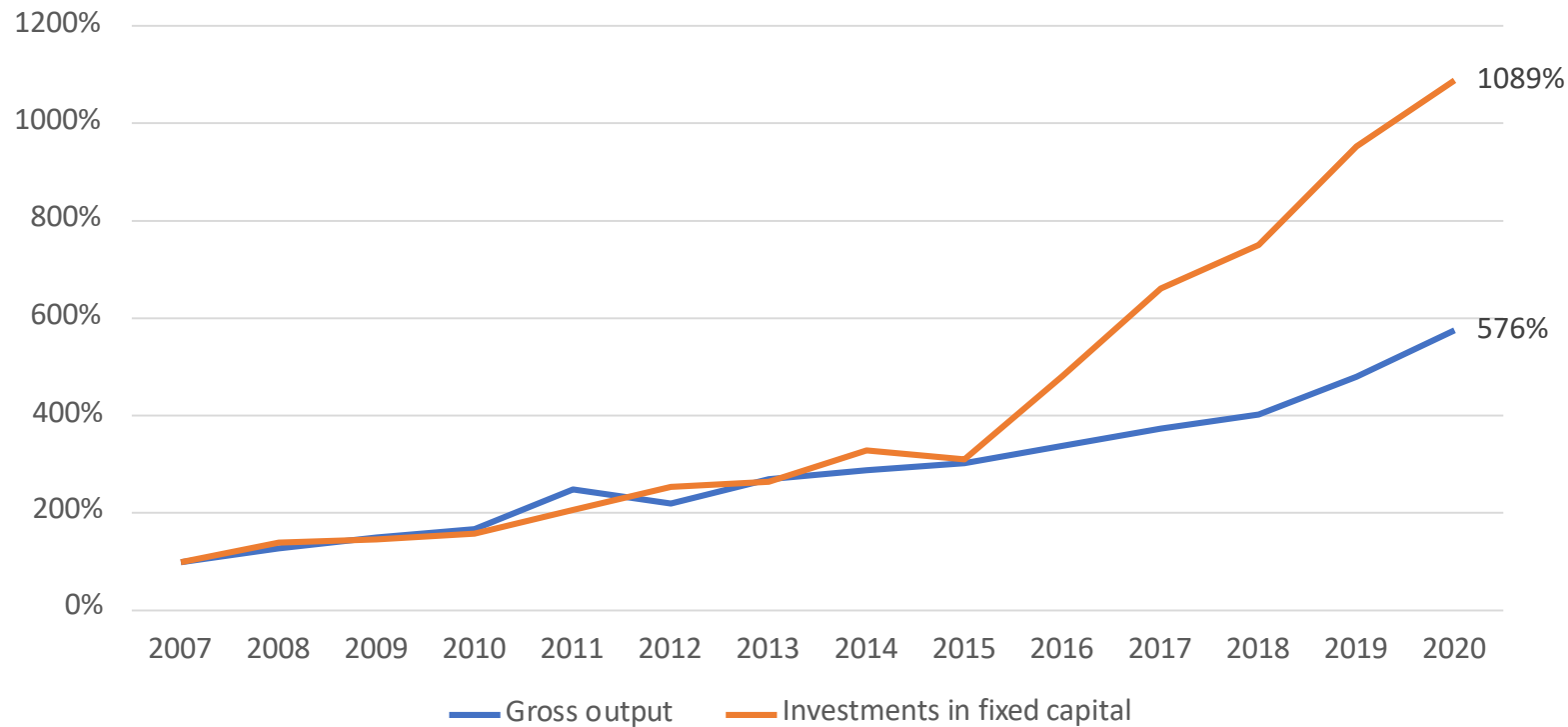
Investments in fixed capital of the industry, billion tenge



However, there may also be a positive relationship between increased subsidies and improved statistical reporting on investments.

The outstripping growth rate of investments in the period from 2016 to 2020 can be seen in comparison with the index of the gross output of the industry.

Index of gross output in agriculture and investment in fixed assets of the industry. 2007 = 100%

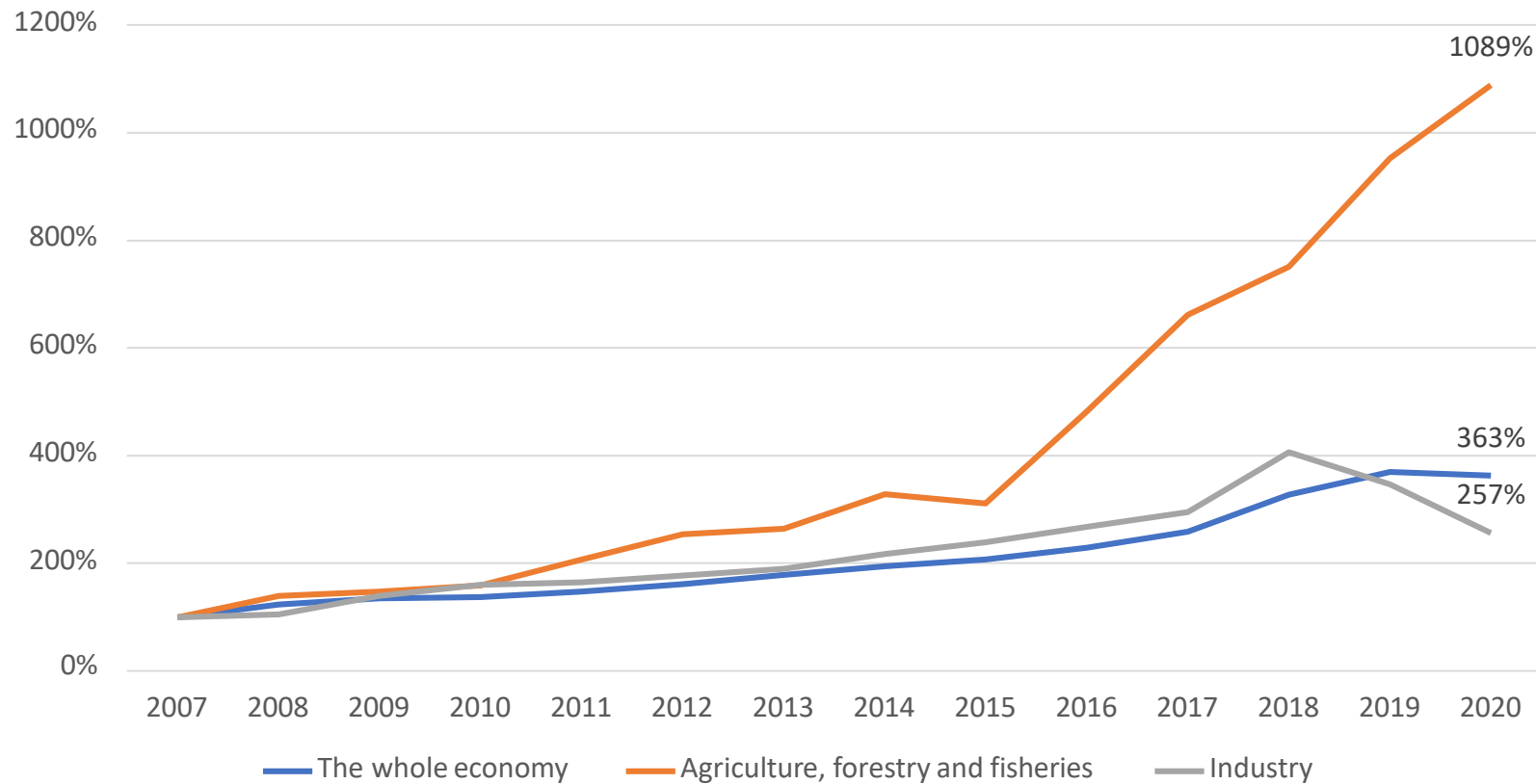


*Why does the growth of investments not lead to a similar increase in output?*



# The index of investment in fixed assets of agriculture is growing faster than the economy and industry

Index of investments in fixed assets in agriculture, industry and the economy as a whole. 2007 = 100%



*If we compare agriculture with the economy of Kazakhstan as a whole, or industry, then investments in agriculture show extraordinarily high growth rates.*

*This indicates additional growth factors - possibly unproductive investment.*

# Difficulties in evaluating efficiency

- Statistical observations on investments relate only to agricultural enterprises and large peasant farms. What happens in medium/small farms is unknown.
- Investment subsidies have stimulated more disciplined statistical reporting in agriculture. It is possible that earlier there were more investments.
- It is unclear how to evaluate unproductive investments.
- How to separate other factors of investment growth, such as concessional lending.

# How else can analyze the efficiency?

- Analyze in detail the imports of equipment: how has it changed over time?
- Mechanisms of "delivery" of subsidies.
  - How wide is the coverage of subsidies?
  - How big are the losses due to poor elaboration of subsidy rules?
  - How high are the transaction costs of allocating subsidies?
- Influence on the efficiency of agricultural producers (productivity of production factors)
  - Microeconomic data needed
  - Competencies needed
- What are the economic losses from inefficient allocation of resources?
- Distribution of benefits between economic agents and assessment of the effect of the leakage of subsidies to related sectors

Evaluation is a tool for  
improving the state policy  
efficacy

# There is no evaluation in the state planning system

From the Decree of the Government of the Republic of Kazakhstan On approval of the State Planning System in the Republic of Kazakhstan (as amended on February 26, 2021):

«*The processes of the State Planning System are the development, implementation, **monitoring**, and correction of its documents.*

*The development process consists of*

- *initiating a document,*
- *analyzing the current situation,*
- *collecting proposals from interested parties,*
- *forming a vision for solving the assigned tasks,*
- *determining the results achieved and the necessary resources,*
- *formulating a draft document,*
- *discussing it with stakeholders,*
- *correlation with other documents of the State Planning System,*
- *revisions,*
- *coordination and approval in the prescribed manner.»*

↑  
And where is the  
evaluation?

# There is no assessment in the state planning system

[Главная страница](#) / [Агентство по стратегическому планированию и реформам Республики Казахстан](#) / [Общая информация](#) / [Структура](#)

## Структура

[← Назад](#)

Руководство

Департаменты

Бюро

Уполномоченный по этике

Уполномоченное лицо по взаимодействию с неправительственными организациями

Уполномоченное лицо по вопросам доступа к информации

## Where are the evaluation functions?

### Служба управления персоналом

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E-mail: a.sadykova@aspire.gov.kz

### Департамент институциональных реформ

[Перейти →](#)

Директор: Тулепов Мейржан Шерманович  
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### Департамент социально-административных реформ

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### Департамент совершенствования экономической политики

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### Департамент административно-правового обеспечения, защиты государственных секретов и информационной безопасности

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### Департамент стратегического планирования

[Перейти →](#)

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Телефон: +7172 64 74 15

*In fact, Anti-Corruption Agency was engaged in evaluation in 2021, which is not its direct function*

# What to do?

Issue	Proposal for discussion
Evaluation is not a part of RBM cycle in Kazakhstan	Initiate discussion with the Agency on Strategic Planning and Reforms. Attract international technical assistance and capacity to update RBM system
Due to inflexibility of the budget regulation, MoA had to merge several subsidy programs into one budget program. This complicates the clarity and transparency for the management.	RBB is increasingly becoming a thing in itself. An example is the punishment for non-execution of the budget, and the punishment for the incorrect execution of the budget. It is necessary to work with the Ministry of Finance to ensure flexibility in the budgetary process.
Rationale of the program is insignificant. Adoption of national projects removed rationale part completely (could appear with adoption of the Concept).	Use of logical framework / theory of changes methodology.
Criticism is perceived with hostility as an attack.	Implementation of an assessment system within government agencies? Observance of the principle of impartiality and motivation from the side of the management is necessary. Emphasize both negative and positive aspects.

# Canada assessment reports

- Published by government agencies on websites
- Concise: 20-30 pages
- Written in an easy-to-understand language.
- Consider both positive and negative aspects.
- Contains the program management response to the recommendation and an action plan for corrective action.

## **Standard report structure:**

Summary

1.0 Introduction

2.0 Subject and methodology

3.0 Program overview

4.0 Relevance

5.0 Program design and delivery

6.0 Effectiveness

7.0 Gender Analysis

8.0 Conclusions and recommendations

9.0 Management response and action plan



# Subsidies have become a main tool of state policy in the agro-industrial complex

- The Ministry of Agriculture practically does not have time for other methods of development. For example, the systematic improvement of the business environment.
- The phenomenon of Rent seeking has developed - dependency, or farming for subsidies.

