

## Financial Support from EU's Common Agricultural Policy for Young farmers in the Czech Republic

Marie Šimpachová Pechrová<sup>1</sup>, Ondřej Šimpach<sup>2</sup>

Institute of Agricultural Economics and Information<sup>1</sup>

Department of modelling of the impacts of agricultural policy

Mánesova 1453/75, Prague 2, 120 00

Czech Republic

University of Economics Prague<sup>2</sup>

Faculty of Informatics and Statistics, Department of Statistics and Probability

W. Churchill Sq. 4, Prague 3, 130 67

Czech Republic

e-mail: simpachova.marie@uzei.cz<sup>1</sup>, ondrej.simpach@vse.cz<sup>2</sup>

### **Abstract**

*Age structure of agricultural workers in the Czech Republic is not favourable, which can negatively influence the competitiveness of the sector as younger farmers tend to be more open to innovation and more often learn new approaches to farming and business. Therefore, EU tries to support the generation renewal from Common Agricultural Policy funds – from 1<sup>st</sup> pillar and by measures of Rural Development Program. The aim of the paper is to assess the measures supporting young farmers implemented in the Czech Republic. Measures are compared in terms of their conditions and outcomes and their contribution to the policy objectives. Despite the amount of granted money and receivers of the support, the problem of generational change remains. Farmers usually overtake a farm (typically from parents) as starting completely new business is complicated (e.g. due to lack of available land and finances and administrative burden). Therefore, the measures that would help young farmers to overcome the entry barriers shall be implemented too.*

**Keywords:** Common Agricultural Policy; European Union; Rural Development Program; subsidies; young farmers

**JEL Classification:** Q18, H25, J11

## **1. Introduction**

In the Czech Republic, the share of farmers – managers of the agricultural holdings under 35 years – was lower than 5% in 2013. On the other hand, there were over 33% of managers in age category 55 to 64 years. Young managers of farms represents only 1.2% of all workers (CZSO, 2011) and 25.8% of all managers respectively.

That can negatively influence the competitiveness of the sector as it is possible to assume that younger farmers are more open to innovation and more often learn new approaches to farming and business. Besides, “younger farmers have a longer planning horizon and tend to invest more heavily in business growth than comparable older age groups.” (Davis et al., 2013). They tend to promote more innovations as for example in Hungary, where the Young Farmers' Hungarian Association is proactive in promoting knowledge sharing and, by implication, innovation in farming (Fieldsend, 2016). This is confirmed by Galanopoulos et al. (2011) who found out that older age of the farmers and the lack of successors is often the main reason for

insufficient level of taking over new production technologies and improvement of the management systems, that can be realized only in case of the presence of the returns to scale.

However, young farmers might not be more technically efficient (see Pechrová (2015a)) who found that young and other farmers do not statistically significantly differ in terms of the technical efficiency) as same as it cannot be clearly concluded whether the farms improved after receiving the support (see Pechrová (2015b) who calculated profitability indicators and technical efficiency of 11 young farmers, but ROA, ROE or ROS varied after obtaining the subsidy. She found no statistically significant relation found between the number of years from subsidy receiving and technical efficiency.). Similarly, also findings of Davis et al. (2009) suggest that is any significant differences in performance between farms depending on the age of manager. On the other hand, farmers that are open to sustainable agricultural practices such as organic farming tend to be younger. (Lobley et al., 2009).

Hence, the generation renewal is crucial. Despite that the initial motivator and guide into agriculture for young and new-entrants to the sector is often the knowledge obtained from family, Šūmane et al. (2017) proclaimed, there are certain barriers that hinder the practical entrance to the sector. “Many socioeconomic factors, such as reduced access to land and credit, and lack of rural infrastructure, drive young people away from a career in agrarian sector.” (Rovný, 2016) Besides as found in a study by Zagata and Sutherland (2015), there is a problem of limited opportunities for young people to access agricultural land, particularly in Eastern Europe. Hence, the start-up of the young farmers’ businesses is supported from public funds.

## 2. Support from EU

Support for generational renewal in agriculture is well rooted in the Common Agricultural Policy (CAP) of the European Union (EU). Already McSharry’s reform, adopted in 1992 pointed to the fact that the high number of farmers is old, thus encompassing incentive programs to support retirement, reducing employment or moving farmers to other sectors. CAP currently constitutes of two pillars. While the first one includes direct aid and market measures as well as the payments to be claimed, the second pillar represents mostly project based subsidies. (Pechrová, 2013) Under the 1<sup>st</sup> pillar young farmers have higher direct payments (in addition to the base payment per hectare) and under 2<sup>nd</sup> pillar – Rural Development Programme (RDP) there is a special programme for starting farmers under 40 years setting up their business for the first time. The RDP measure “Setting up Young Farmers” aims to fight the demographic problems of these areas. (Bournaris et al., 2014)

Importance of the support for young farmers in countries of the EU varies in terms of finances devoted to young farmers compared to the total budget of the RDP and the share of farmers with support. Support for generation renewal can be spread within RDP in several measures – M01 Transfer of knowledge, M02 Advisory services, M04 investment, M06 Farm development and M16 Cooperation. For example, Czech Republic provided 57 047 EUR (0.002% of total RDP budget) to measure M01 Transfer of knowledge. Then 30 million EUR of total public expenditures was allocated to M06 Farm development. (Šimpach, 2017). M06 supports the entry of young persons into the agricultural sector by providing a one-off grant to trained young farmers who have set-up in farming for the first time. (Bournaris et al., 2016)

Czech RDP 2007–2014 supported farmers up to their 40<sup>th</sup> birthday, while in current RDP 2014–2020 are eligible also farmers up to their 41<sup>st</sup> birthday. (Šimpachová Pechrová, 2017) The form of the support is investment grant up to 70 000 EUR per one business plan of the young farmer. “The potential merits of such assistance lies in an aspiration to bring into the

industry well qualified younger people who can provide a firmer foundation for the development of a dynamic and competitive sector in the future.” (Davis et al., 2013)

### 3. Materials and methods

The aim of the paper is to assess the measures supporting young farmers implemented in the CR. We particularly pay attention to the measures I.3.2 and 6.1.1 *Setting-up of the young farmers activities* of Rural Development Programme (RDP) financed from EU resources (EAFRD). Both measures are compared in terms of their conditions and outcomes and their contribution to the policy objectives are outlined. Firstly, support from 1st pillar and then from 2nd pillar of CAP presented. We based our analysis on the publicly available data from Ministry of Agriculture of the Czech Republic (MoA) and State Agricultural Interventional Fund (SAIF) and on the data about the amount of standard production of young farmers that were provided by the MoA. The analysis is done from financial and performance point of view.

### 4. Results

Direct payments provided under the first pillar of the CAP has changed and since 2014 consist of seven parts, where the payment scheme for young farmers is mandatory. It is provided in the form of the addition is in the height of 30% of the basic payment and paid to the farmers up to 40 years and new starting farmers or agricultural holdings founded in recent 5 years. It is provided only for 5 years since the foundation and on maximum 90 hectares. Rate in the year 2015 was 885 CZK (25% from SAPS in height 3543 CZK), 878 CZK (25% from 3514 CZK) in year 2016 and the lowest was in 2017, only 844 CZK in addition to 3 375 CZK of SAPS. In year 2015 3 890 of farms was supported which represented 77 650 hectares. In later years, the number of applicants was much higher (see Tab. 1). Hence, average supported acreage was in all years around 20 ha. The share of legal entities increased slightly.

National financial envelope was in all three years 70 mil. CZK that represents around 0.15% of the total finances (SAPS represents almost half of them). Because the support for young farmers did not exist before, it is not possible to assess how many young farmers had been supported in previous years. We can suppose that the number of supported farmers is now stabilized and that there are slightly over 4 thous. of them benefiting from higher direct payments on hectares or livestock unit (LU).

**Table 1: Direct Payments – Additional Support to Young Farmers**

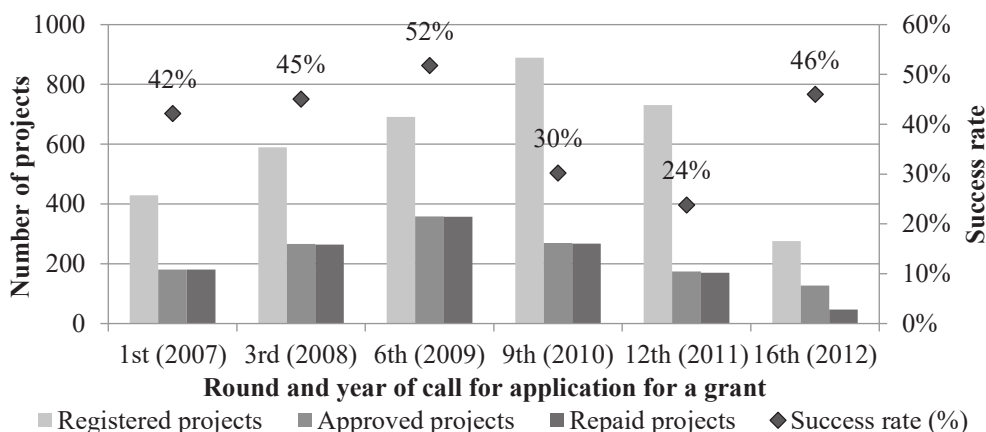
	2015	2016	2017
<b>Total number of applicants - young farmers</b>	3 890	4 273	4289
<b>Total supported area</b>	77 650 ha	84 475 ha	84 364 ha
<b>Average supported area</b>	20.0 ha	19.8 ha	19.7 ha
<b>No. of physical persons</b>	3 724 (96%)	4 050 (95%)	N/A
<b>No. of legal persons</b>	166 (4%)	223 (5%)	N/A

Source: MoA (2017), MoA (2018), own elaboration

Regarding the RDP, between 2007 and 2013, more than 126 000 young farmers in the EU received financial assistance to start operations on their farms, in total amount of 3,65 bil. EUR

(ENRD, 2014). The support is granted based on the submitted business plan and its implementation that provides to some extent a control on the way in which grant aid is invested. Because it is an investment type of support, to assess its effectiveness needs a longer time horizon. Therefore, it is still not possible to assess the effectiveness of the aid provided in the new programming period. Hence, we assess first the subsidies in the 2007–2013 programming period. Under measure I.3.2 *Setting-up of the young farmers activities* 6 rounds of call for grants' applications took place. During the duration of the measure, 3 606 projects were submitted and registered, 1 364 of which were approved and 1 351 repaid till 16<sup>th</sup> September 2015 (see Fig. 1.). Repaid amount was 1.5 bil. CZK (till 09/2015; but 9.7 CZK still had to be repaid). Average success rate of applicants was only 38%. Especially in 12<sup>th</sup> call the it was very low, because there was submitted a high number of applications (731). However, most applications were submitted in 2010. In last round in 2012 was success relatively high (46%) thanks to low number of applications. The most applicants in absolute terms succeeded in year 2009, when in 6<sup>th</sup> round was submitted 391 and accepted 358 applications.

**Figure 1: Number of Registered, Approved and Paid Projects from RDP 2007-2013**



Source: MoA (2015), own elaboration

According to Eurostat, there were 5000 farmers up to 35 years in farms' management. Hence, the program supported 27% of them. Every young starting farmer could get up to 1.1 mil. CZK, but in many cases the applicants requested lower amount. Majority of finances was paid in 2009 in 6<sup>th</sup> round. On average, the most finances per project was spent at the beginning of the 1<sup>st</sup> round. On the contrary, projects with the lowest average value 1 007 450 CZK were submitted in year 2010. Each year the average age was similar, women were on average about 3 years older constantly across all rounds. The highest number of beneficiaries (362) was between 25 and 29 years old. Persons over 30 years of age represented about 47% of sample, persons under 25 years of age 26%. However, the percentage of big farms increased, so if the number of holdings with young managers decreased, the acreage of increased. Despite that, the largest category of young farmers' holding is up to 50 ha (there were 53% of them in 2013).

Predominant type of business remains mixed crop and livestock production, field crops and grazing livestock. The minimal interest of starting entrepreneurs was in individual breeding of pigs and poultry, the milk sector or horticulture, which corresponds to the overall situation in agriculture in the CR – see Ekotoxa and Ireas (2016).

Generation renewal in RDP 2014–2020 shall be supported by financing 750 young farmers. While the aim in previous programming period was 1 500 and so-far 1 364 projects were

repaid, currently it is supposed that there will be 2.86% of holdings with supported development plan or investments. In 01/2018 already 781 projects were approved or recommended. This number can be lower, as not all projects will be repaid. In previous programming period, there were 1375 approved projects, but only 1286 repaid. Nevertheless, the number of approved projects in new period is relatively high considering, that so far only 2 calls for subsidies took place. Similar number of approved projects was achieved in previous period only in the 3rd call. Besides, their number currently exceeds stated target.

So far, there were only two rounds of calls (2<sup>nd</sup> round in 2016 and 4<sup>th</sup> round in 2017). In 1<sup>st</sup> call, there were submitted 682 applications, but the administration was stopped in 141 cases; 507 projects were recommended and 34 alternated. It has been signed yet 538 agreements on providing the subsidies. Hence, the success rate was high – 86.1%. The points awarded to projects ranged from 30 to 96, with an average of 61. Total amount of demanded finances was 685 mil. CZK. Average age of young applicants was 31, while half of the young farmers was older and half younger than 30 years. The youngest applicant was 19 years old, the most frequent age was 26 years. Some farmers (7) did not have any land (they probably run only livestock production), but an average applicant managed around 30 hectares. Only 21 farms were larger than 100 hectares. On the other hand, 79 had less than 5 hectares.

The value of SO was obtained from the appendix of application for grant. Majority of young farmers has small SO. Only few farmers had SO higher than 3 mil. CZK. The prevailing type of production was growing of wheat, permanent non-extensive meadows and pastures, followed by barley. Majority of projects included permanent meadows and pastures and livestock production – livestock up to 1 year. In 288 cases was part of sowing process wheat, in 264 cases fodder crops and in 129 projects appeared potatoes. If young farmers had livestock production, the largest volume of SO consisted of cattle breeding up to 1 year and other cows. The intent to breed cattle appeared in more than 700 projects. In addition, production of goats and sheep for milk production was important. Most projects contained cattle, sheep, goats and equines. On the contrary, the less type was breeding rabbits and poultry.

In the second call were registered 478 projects and approved 240 in amount of 3.75 mil. CZK (3 were denied so far). Originally there were 264 in category Recommended, 61 in category Alternative and 153 was not-recommended. The success rate was around 50%. Average number of points per project was 63 ranging from 52 to 90. There were 150 men and 59 women and 31 limited liability companies. There is no publicly available information about the acreage of the supported farms so far. Also, the SO of farms is not published. From publicly available data, we can see certain trends. Despite that mostly the titles of the projects are “Setting-up of the business”, sometimes they enable to see the type of production. A content analysis revealed that 15 projects were aimed on crop production, particularly of fruit (7 cases from which 3 were for wine production), there was 1 project for barley storage and 1 for processing of beer and 1 for lavender. Mixed production appeared in 6 projects and livestock production in 28. Cattle production was declared in 6 projects as same as goats breeding. There were 4 farms in ecological type of management and 2 were aimed also on horse breeding.

## 5. Discussion

Despite that the measures supporting young farmers is well rooted in CAP, it is very hard to access their real contribution. Authorities usually monitor only the number of applicants (that is relatively high in both programming periods), success rate of the applicants and fulfilling of the target of the share of supported young farmers from all. There should be used more sophisticated methods such as counterfactual analysis which compares the situation of those farmers who took advantage of the support with those who started their farms without support.

However, it is difficult to find matched pairs of farmers. Therefore, simulation models are used. Davis et al. (2013) used dynamic farm-level optimization framework of the model and find out that New Entrants Scheme which will assist younger people who wish to set-up in farming had a significantly more positive impact than Early Retirement Scheme. But e.g. in Greek,  $\frac{1}{4}$  of 254 respondents claimed that they have regretted participating in Young farmer policy scheme. “The most frequent reason... is that this policy scheme was highly promoted, creating this way higher expectations than the real potentials.” (Kontogeorgos et al., 2014).

The problem of death weigh of the policy tools is also well known and discussed for example by Doucha et al. (2017). Also, Balmann and Sahrbacher (2014) highlight that subsidies reduce scope of action for future policies. It is quite usual that young farmers would start the farming activities even without support as they “have to” overtake the firm from their parents or they wish to continue in the family business. In this case, financial support for investment plan is facilitating the process, which would happen anyway.

Another situation is in case when farmers start new firm which is harder due to entrance barriers (lack of soil or credit possibilities) and not related to young farmers only. Ingram and Kirwan (2011) described, how setting up long-term arrangements enables the new entrant to “buy into” an existing farm business and gradually taking over managerial control in Cornwall, United Kingdom, but found deep-rooted reluctance towards participation in joint ventures. This type of taking over the farm is not used in the CR and probably does not represent a feasible way. Support for young starting-up farmers, therefore, seems as the only possible way so far. Despite that the amount of finances will shrink, with declining population of farmers, could be sufficient. A projection elaborated by Šimpach and Pechrová (2015) shows that while in 2011 it there were 12.1% of young farmers (potential applicants for subsidies) supported by 205.7 bil. EUR, this amount will be able to cover 18.6% of young farmers in 2041.

## 6. Conclusion

The aim of the paper was to assess the measures supporting young farmers that were implemented in the CR. We focused on measures from CAP and directly aimed at those farmers and are financed from the means of the EU. In both programming periods (2007–2013, 2014–2020) the interest of young applicants was high. Hence, the success rate was only 38%, 67.3% resp. It is therefore interesting why the MoA choose to support only 750 in current programming period, while the target in previous period was set on 1500. At that times it was achieved from 87% (1300 projects were supported). Currently already around 780 projects are approved to be funded and there were only 2 rounds of calls for subsidies so far, while in previous period there were 6 of them. Hence, the set goals will be probably exceeded.

Besides, farmers usually overtake a farm (usually from parents) as starting completely new business is complicated (due to lack of available land and finances and administrative burden). Therefore, the measures that would help young farmers to overcome the entry barriers shall be probably implemented too. Besides, so far, the financial support did not succeed too much in attracting young people to livestock production (as it is desirable according to the strategies of agricultural sector proclaimed by the MoA). Hence, this shall be also considered.

Nevertheless, our focus was only on measures from CAP and directly aimed at young farmers. There are other possibilities, such as Farming and Forestry Relief and Guarantee Fund that provides grants on interests of investment loans with higher rate of support to farmers younger than 40 years. Besides, many measures influence the decision of young farmers also indirectly – such as measure *M04 – Investment to tangible assets*, operation 4.1.1 (agricultural

investments) and 4.2.1 (food-processing investments) of RDP 2014–2020. Hence, the challenge for future research is to examine the subsidies in broader context of other measures.

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