

Opinions of Young Farmers on EU's Financial Support

Marie Šimpachová Pechrová¹, Ondřej Šimpach²

^{1,2} Institute of Agricultural Economics and Information

Mánesova 1453/75, Prague, 120 00

Czech Republic

e-mail: simpachova.marie@uzei.cz¹, simpach.ondrej@uzei.cz²

Abstract

Young farmers are supported by EU's Common Agricultural Policy by complementary direct payments on agricultural land and investment support. The aim of the paper is to assess the opinions of young farmers on this financial aid, whether it is motivating enough to encourage young people to enter the agricultural sector. Respondents assessed the policies on a scale from "certainly motivating" – mark 1, "rather motivating" – mark 2, "rather not" – mark 3, "certainly not" – mark 4 and not applicable – 0. The answers are divided according to the type of the farmer. We received 510 answers in electronic survey. The best evaluated was complementary direct payment with average 2.2. Then RDP investment support was awarded by mark 2.6 and support for start-up from RDP by 2.7. Complementary direct payments were helpful mainly for those who started agricultural activity later than 10 years after studies (2.1). Investment and start-up supports from RDP were evaluated highly by livestock producers (2.5 and 2.6). Less administratively demanding subsidies are appreciated more.

Keywords: agriculture, Rural Development Programme, subsidies, young farmers

JEL Classification: C01, C12, C21

1. Introduction

Generation renewal in agriculture is crucial to sustain the food production, maintenance of the landscape or employment in countryside. The age structure of farmers is not favourable – there are on average only 10.6 % of farmers under 40 years in the European Union (EU) 28 states. In the Czech Republic (CR), there are only 10.2% of young farmers under 40 years that corresponds to the average. Neighbouring states of the CR are in much better situation (Austria (22.2%), Poland (20.3%), Slovakia (19.0%) and Germany (14.7%)). By contrast, the United Kingdom (5.3%), Portugal (4.2%) and Cyprus (3.3%) are in the worst situation.

According to Eurostat (2019), managers in the age group from 55 to 64 years (32%) predominate in the CR. There are even 26.8% of farmers over 65. From 45 to 54 years are 22.1% of them. It means that majority of managers in agricultural holdings are retired or are close to the retirement age.

1.1 Subsidies for Young Farmers from the EU

Because of the unfavourable age structure, young farmers are supported by EU's Common Agricultural Policy. In the first pillar it is by complementary direct payments that are added to the area payment SAPS (Single Area Payment Scheme). Those are entitlements because they are granted to all farmers that fulfil the conditions. Under the second pillar (Rural Development Programme – RDP) there is a measure Setting up of young farmers' businesses in where business plan of young farmer is supported if it is selected in the Call for subsidies. It facilitates "the initial establishment and the structural adjustment of their holding afterwards."

(Kontogeorgos et al, 2014). Besides, it has a wide range of instruments that supports a good environment, improved cooperation between the rural community and the local government, the introduction of new technologies and the internet, increasing the educational level of the rural population, development of tourism, rural culture. (Harakaľová, 2018). “The EU allocated 9.6 billion euro to young farmers in 2007–2020 to foster generational renewal in agriculture.” (European Court of Auditors, 2017). The proposal of the CAP for 2020+ presumes a continuous support of young farmers in height at least up to 2% of finances devoted to direct payments.

Complementary direct payment for young farmers was implemented only in the current programming period and equals to 25% of the average value of the SAPS payment entitlements of young farmer. The rate in 2015 was CZK 885 (25% of SAPS of CZK 3543) and in 2016 CZK 878 (25% of CZK 3514). In 2017, the rate was only CZK 844 per ha, but it increased on CZK 1 694 per ha in 2018 as it could be co-financed from national sources. In 2015, 3 890 of young farmers were supported on 8 475 hectares and in 2016 4 273 on 84 475 ha. The average supported area was 20 ha in both years. It is because the number of hectares that are subject of higher payment is limited – to 90 ha in the CR. (Each Member State could set it according to its needs.) The highest number of applicants has been reached in 2017 (4 289).

Investment support for start-ups of young farmers is provided since the 1980s. In the 2007–2013 programming period, under the RDP measures Start-up of young farmers was approved and reimbursed 1 364 projects in the total value of 94 984 thous. EUR. So far, applications from the RDP 2014–2020 have been received in three rounds (in the 2nd in 2016, in the 4th in 2017 and in the 6th in 2018). In the first round 548 applications were approved and in the second 254 and in the third 312.

Currently, new CAP is being negotiated as same as new Mutual Financial Framework for years 2020–2027 and new measures of agricultural aid are being drafted. There is currently devoted 365 billion euros for both pillars. The allocation for EAFRD is proposed to be 80 037 million euros. Despite that the CAP share will decrease under 30% of the total budget, it is still one of the most important policy together with cohesion policy.

For the purpose of new CAP creation, there has to be done the analysis of the needs and problems of young farmers and generational renewal, so the solutions can be searched and proposed in the CAP Strategic plan. Part of the assessment has to describe the experiences with current CAP measures. Hence, we are concerned with the opinions of young farmers on the CAP support.

1.2 Usefulness and Efficiency of the Subsidies from the EU

It is necessary to examine whether the support is useful and really help young farmers to enter the sector and, more broadly, encourage the generation renewal in agriculture. This question concerned e. g. European Court of Auditors (ECA) (2017) which found out that “this aid is often poorly-defined, with no expected result and impact specified”. They consider complementary direct too standardized and found them not matching young farmers’ needs as they provide only additional income to the farmers. On the other hand, investment support from RDP is better targeted to the farmers’ needs and prompts specific actions, however the managing authorities did not always apply selection procedures to prioritise the best projects. Therefore, the ECA recommends “to better define the objectives and target the EU support in order to foster effective generational renewal.” (ECA, 2017).

Regarding the additional payment Matthews (2013) even proclaim very strong statement that “this payment is the wrong instrument addressing the wrong problem”. He thinks that the problem is elsewhere as there are many financial incentives for farmers to remain farming, and

few to encourage older to leave. He proposes reintroduction of the Early Retirement Scheme. However, there is no clear evidence that this scheme was beneficial when it was in place. Besides, Davis, Caskie and Wallace (2009) found out that there is no significant differences in farmer performance related to age, so the generation renewal on a farm does not necessary have to bring economic effect.

May, Arancibia and Adams (2019) assessed, using a behavioural approach, how complementary direct payment influenced the incentives of young farmers to stay in the farm. Positive influence had “increasing involvement with farm activities and decision making and having more control over the farm in terms of knowing the current situation of the farm positively affect young farmers’ enjoyment at work and allow them to obtain recognition and prestige”. (May, Arancibia and Adams, 2019). Regarding the subsidies, the authors introduced beliefs about policy support (BPS) as exogenous factor that influence farmers’ incentives to leave. This construct consists of two statements, both negatively influencing the incentive to stay: (1) *Agriculture should not need to be supported by public subsidies* – young farmers who agree believe that the sector is not profitable enough to be self-sustained, (2) *Neighbouring farmers could resent the idea of additional subsidy to young farmers*. From this implies that “policies based on payments given to young farmers may not work if they are not aligned with key social and psychological behavioural drivers.” (May, Arancibia and Adams, 2019)

Satisfaction of farmers with their involvement in Young Farmer Scheme was examined in Greece by Kontogeorgos et al. (2014). Their analysis showed that the satisfaction is determined by the responsibility to protect the environment and by the farmers’ awareness that their daily farm practices affect the environment. Hence, this policy measures “could attract to agriculture new entrants that will help to restructure agricultural sector”. (Kontogeorgos et al., 2014). Besides, McDonald et al. (2014) showed that New Entrant Scheme helped the farmers to learn how to formulate business plan that detail “their key targets in establishing and developing dairy farms that would be viable in the forthcoming deregulated dairy regime.” (McDonald et al. 2014).

According to Davis, Caskie and Wallace (2013) New Entrants Scheme has an important impact on farm performance due to its potential dynamic impacts of the farm investments. However, in this measure it is likely that some deadweight can incur in cases where farmers finance from the grant the investments they would have done anyway. They also examined subsidies on the interests of loans for young farmers and they found out that it had significantly bigger impacts.

This financial instrument is considered to be implemented after 2020 also in the CR. According to the proposal of the European Commission’s regulation, those financial instruments can be combined with standard investment grants. In the CR, there are experiences on national level when subsidies for part of the interest on loans granted by commercial entities to agricultural entrepreneurs for investment are financed from national resources and provided through Supporting and Guarantee Agricultural and Forestry Fund.

2. Problem Formulation and Methodology

The aim of the paper is to assess the opinions of young farmers on this financial aid from Common Agricultural Policy, whether it is motivating enough to encourage young people to enter the agricultural sector. We examined complementary direct payments for young farmers and investment grants for the start-up of young farmers. Opinions of the farmers on those policy measures were obtained in primary research.

2.1 Data

An electronic survey by means of structured questionnaire took place in June 2018. We asked over 6 thousand farmers under 40 years of age who have registered land in LPIS. 510 completely completed questionnaires returned, which represents a return rate of about 8.5%. Average age of the respondent was 32.9 years. There were 74.9 % of women. Average size of the farm was 42.4 ha, from which 62.4% was rented (26.4 ha).

Majority of respondents were physical persons (94.7%), others were various forms of legal persons. There were 133 farms with crop production, 175 with livestock and 202 with mixed production. 26.5% farms were managed organically (had certificate of organic farmer). Almost the same proportion of respondents started in the agriculture without any previous background (42.4%) and took it over from parents or relatives (41.8%). 5.1% of respondents inherited the farm from parents or other relatives. The rest bought the farm, partially overtook it, lease it etc. The average length of existence of an enterprise since registration was almost 5 years (4.9). In 29.0% of cases the farm was overtaken from a farmer that was older than 55 years. Over one fifth of respondents (22.9%) started with farming already during studies, 46.1% after school up to 10 years after the graduation. Then 31.0% founded or overtook their farm later than 10 years after finishing schooling.

Regarding the subsidies, over half of the young farmers ever applied for subsidies (52.4%) from the Rural Development Program and 20.8% were considering the application in the future. Only 26.9% have never applied for RDP subsidies and are not ever going to apply. Out of those 267 applicants, 45 did not receive any subsidy at all, i. e. 16.9% of applicants were completely unsuccessful. These 267 applicants applied for subsidies from various programs – both in the past and the current programming period. In total, respondents submitted 370 applications. Thus, on average, one applicant submitted 1.4 applications. The most requested measure from current RDP (programming period 2014–2020) was *6.1.1 Start-up of young farmers* (44.1% of applications). There was also a great interest in *4.1.1 Investments in agricultural activities* (29.5%). In the previous programming period 2007–2013, 17.3% of respondents applied for start-up grant (I.3.2) and 9.2% for *1.1.1 Investment in agricultural activities*. 24 of the 34 respondents received the RDP 2007–2014 subsidy in measure *1.1.1 Investment in agricultural activities*. The success rate was less than 71%. The start-up grants for a young farmer (I.3.2) was then received by 52 applicants and, on the contrary, only 12 were unsuccessful, resulting in a success rate of 81%. For investment measure (4.1.1) in the current programming period, the success rate was lower (78%), as 85 out of 109 farmers received a grant. A higher success rate (80%) was in measure 6.1.1, when the subsidy was received by 131 respondents and 32 did not receive it.

2.2 Methods

In the questionnaire, we asked the respondents about their opinion on the support from the EU currently provided within RDP: (1) measure 6.1.1. Start-up of young farmers, (2) *4.1.1. Investment in agricultural activities*, and from the first pillar (3) *complementary direct payments for young farmers*. The question was: “Do you think that the existing agricultural policy measures are sufficiently motivating for young farmers to start up in agriculture?” The respondents assessed it on a scale: (1) totally agree – 1 point, (2) rather agree – 2 points, (3) rather disagree – 3 points, (4) totally disagree – 4 points, (5) not applicable – 0 points. The answers “not applicable” were omitted from further analysis.

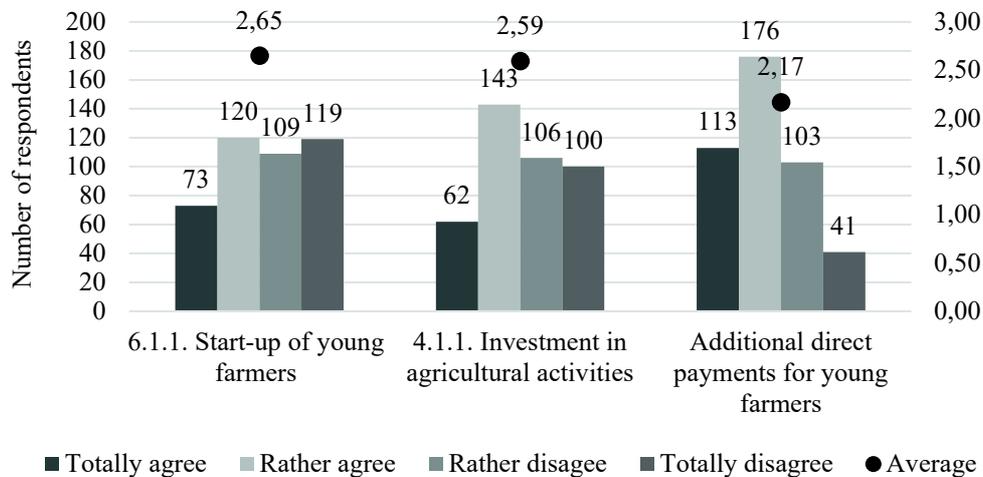
Data were processed by the tools of statistical description. The answers were divided according to the types of farmers: (1) physical or legal person, (2) type of production (crop production,

animal production, mixed production), (3) organic or conventional production, (4) type of starting the business (without any previous background, overtaking from parents or relatives, other types of start), (5) whether the farm was overtaken from a farmer older than 55 years, (6) when the farmer started to work in agriculture (during school, within 1 to 10 years after graduation, later than 10 years after graduation). We used weighted arithmetical mean to calculate average mark for each answer and compared them within the categories. We assumed that for different types of farmers were various supports important differently.

3. Problem Solution

The respondents assessed three types of EU’s support. It can be seen from Figure 1 that the most appreciated form of aid altogether were complementary direct payments for young farmers with average mark 2.17. (The lower is the average mark, the better.) The investment in agricultural activities (measure 4.1.1. of current RDP) is valued even higher than specialized measure for start-up of young farmers. It can be due to the fact that the measure 4.1.1. is easier to be administrated. Measure 6.1.1. is conditioned by a business plan that must be fulfilled – investments must be done within 2 years since signing the grant agreement and the plan must be finished in 5 years after the grant agreement. Besides, the projects of young farmers are preferred by preferential points, so they have higher probability of being chosen than the projects other farmers.

Figure 1: Do you Think that the Existing Agricultural Policy Measures are Sufficiently Motivating for young Farmers to Start up in Agriculture? Answers for Each Intervention and Average Mark.



Source: primary survey (2018); own elaboration (2020)

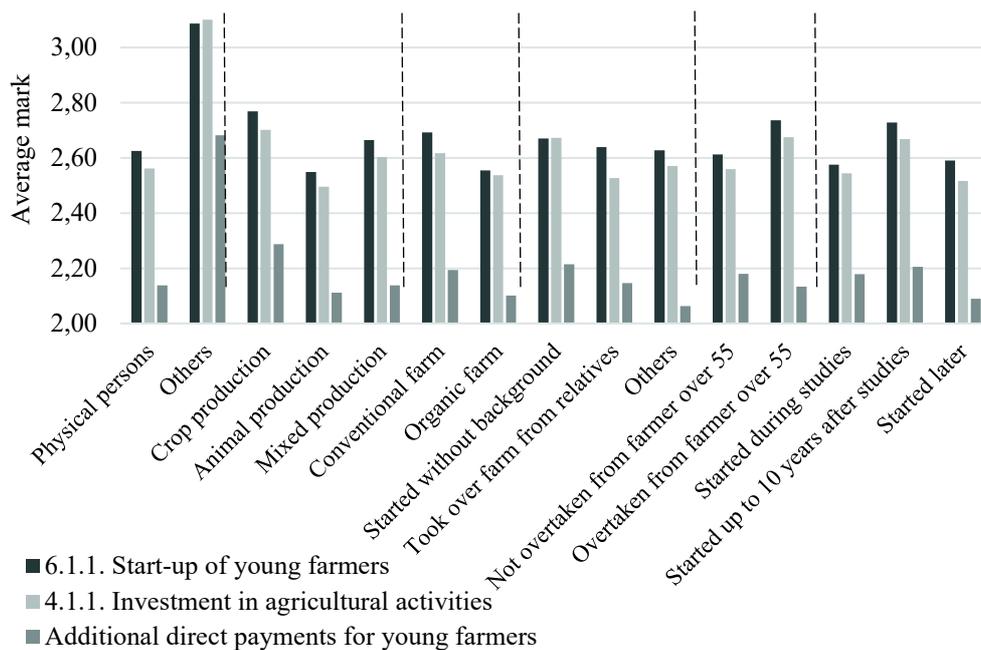
Then average marks were calculated for each group of farmers and displayed at Figure 2. Physical persons considered as the most motivation the complementary direct payment as same as the others. This might be due to the fact that this type of support is entitlement and is easy to be obtained by young farmers. Similarly in case of farms with livestock, mixed and crop production. The rank of the supports was the same, but the best mark was awarded by livestock producers (2.11). Those categories of farmers evaluated with the highest marks also measure 6.1.1 (average mark 2.55) and 4.1.1 (2.50). Farmers farming conventionally appreciated

additional payments and then start-up grants, while organic farmers preferred rather 4.1.1 than 6.1.1.

Those who took the farm from the relatives gave better marks to investments in agricultural activities than those who started agricultural activities without background. It might be due to the fact that this grant is easier to be obtained by already working firms because they have to prove that the investment will be efficient (the payback period of the investment is shorter than is lifetime). This efficiency means that the investment is repaid from its incomes after certain time. (Ministry of Agriculture, 2018). It is relatively administratively demanding to calculate this when no incomes are known yet as the farmer only begins with the activity. Of course, the direct payments as the least demanding are valued the best.

If the farm was overtaken from older farmer (over 55 years), the appreciation of both types of subsidies is lower. Those, who started farming later than 10 years after school appreciated the most investment grant for agricultural activities. On the other hand, for measure Start-up of young farmers was the best average mark awarded by farmers that started their farm already during studies. It helped them probably the most as it is a specialized grant for new entrants.

Figure 2: Do you Think that the Existing Agricultural Policy Measures are Sufficiently Motivating for Young Farmers to Start up in Agriculture? Average Mark for Different Groups.



Source: primary survey (2018); own elaboration (2020)

Complementary direct payments were helpful mainly for those who started agricultural activity later than 10 years after studies (2.1). Investment and start-up supports from RDP were evaluated highly by livestock producers (2.5 and 2.6). It is clearly seen that less administratively demanding subsidies are appreciated more. The lowest marks were given to whole type of subsidies by legal persons, but it might be due to the fact that there were only few of them, then crop producers considered as the least motivating 6.1.1. Start-up of young

farmers (2.77), 4.1.1. Investment in agricultural activities (2.70) and complementary direct payments for young farmers (2.29).

The results have an implication for policymakers. We can conclude that the complementary payment for young farmers seems as the easiest and the most motivational solution to start farming. Based on the research of May, Arancibia and Adams (2019) we can also proclaim that this payment prevent young farmers to leave the farm. However, also social and behavioural aspects must be taken into account as “the young farmer payment was not the strongest factor affecting farmers’ motivations and willingness to leave the farm” (May, Arancibia and Adams, 2019), but also negative opinion of relevant neighbours can influence the decision of the young farmer to stop farming.

4. Conclusion

The age structure of farmers is not favourable in the EU as same as in the Czech Republic, where is only 10.2% of farmers under 40 years. Hence, the generational renewal is supported by EU’s Common Agricultural Policy via the aid granted to young farmers. In the first pillar there are complementary direct payments and under second a measure Setting up of young farmers’ businesses. The aim of the paper was to assess the opinions of young farmers on EU financial support and see, how the opinions differ based on different types of agricultural holdings and various criteria.

Altogether the best evaluated were complementary direct payments (average mark 2.2), then RDP investment support (2.6) and support for start-up from RDP (2.7). It is clear that more motivating are less administratively demanding grants. Further analysis showed that complementary direct payments were helpful mainly for those who started agricultural activity later than 10 years after studies ((average mark was 2.09), for organic farmers (2.10) and livestock producers (2.11). Investment support from RDP where young farmers are favoured was evaluated highly by livestock producers (2.50), by those who started agricultural activity later than 10 years after studies (2.52) and RDP support for start-ups was appreciated the most by a group of farmers with organic type of production, livestock producers (2.55) and those who started their business during studies (2.58).

Nevertheless, average mark over 2 shows that the subsidies are “rather motivating” and not “certainly motivating” factor that influence the start-up of young farmers. It is necessary to take into account other aspects of generational renewal. EU policy focuses only on young farmers nowadays as the early retirement scheme was cancelled. In the CR, there are also, national instruments available. Generation renewal is supported by interest subsidies for young farmers that are provided by PGRLF. Besides, when the farm is transferred from older to young farmer, there is a tax relief (no taxes must be paid). It is questionable whether this support is sufficient as the number of young farmers have been decreasing in recent years. Other motivation than financial must be taken into account. Future research will therefore consider the generation renewal in agriculture in more complex way.

Results of our research can be used to prepare new CAP policy. Currently, there are ongoing negotiation about new EU Multiannual Financial Framework for next seven years where CAP has an important position. Despite that the CAP share will decrease under 30% of the total budget, it is still one of the most important policy together with cohesion policy. Hence, it is important to perform analyses that will question the suitability and efficiency of the CAP. This is also our aim in the future.

Acknowledgements

The paper was supported by the Ministry of Agriculture of the Czech Republic, institutional support MZE-RO0918, Internal Research Project no. 1113/2019 Young farmers in the Czech Republic.

References

- [1] Davis, J., Caskie, P., Wallace, M. (2009). Economics of farmer early retirement policy. *Applied Economics*, vol. 41, pp. 35–43.
- [2] Davis, J., Caskie, P., Wallace, M. (2013). Promoting structural adjustment in agriculture: The economics of New Entrant Schemes for farmers. *Food Policy*, vol. 40, pp. 90–96.
- [3] European Court of Auditors (2017). *EU support to young farmers should be better targeted to foster effective generational renewal* [online]. [cit.2019-12-20]. Available at: <https://op.europa.eu/webpub/eca/special-reports/young-farmers-10-2017/en/>
- [4] Eurostat (2019). *Database* [online]. [cit.2019-12-20]. Available at: <https://ec.europa.eu/eurostat/data/database>
- [5] Harakařová, L. (2018). Smart Villages – New Concept of Rural Development of the EU. In *International Conference on European Integration*. Ostrava: VŠB-TU Ostrava, Faculty of Economics, pp. 413–421.
- [6] Kontogeorgos, A., Michailidis, A., Chatzitheodoridis, F., Loizou, E. (2014). “New Farmers” a Crucial Parameter for the Greek Primary Sector: Assessments and Perceptions. *Procedia Economics and Finance*, vol. 14, pp. 333–341.
- [7] May, D., Arancibia, S., Behrendt, K., Adams, J. (2019). Preventing young farmers from leaving the farm: Investigating the effectiveness of the young farmer payment using a behavioural approach. *Land Use Policy*, vol. 82, pp. 317–327.
- [8] Matthews, A. (2013). Wasting money on young farmers? *CAP Reform* [online]. [cit.2019-12-20]. Available at: <http://capreform.eu/wasting-money-on-young-farmers/>
- [9] McDonald, R., Macken-Walsh, Á., Pierce, K., Horan, B. (2014). Farmers in a deregulated dairy regime: Insights from Ireland's New Entrants Scheme. *Land Use Policy*, vol. 41, pp. 21–30.
- [10] Ministry of Agriculture (2018). *PRAVIDLA, kterými se stanovují podmínky pro poskytování dotace na projekty Programu rozvoje venkova na období 2014– 2020. Specifické podmínky pro poskytování dotace na základě Programu rozvoje venkova platné pro 7. kolo příjmu žádostí* [online]. [cit.2019-12-20]. Available at: http://eagri.cz/public/web/file/593784/Pravidla_4_1_1_7.kolo.pdf