

## GENERATIONAL CHANGE OF MANAGERS IN AGRICULTURAL HOLDINGS

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### Abstract

The aim of the paper is to examine the possibilities of supporting the generation change of managers in agricultural holdings, what is the good practice in handing over the management of the farm and how to process could be supported. A questionnaire asked young farmers to find out what their difficulties were during setting up or overtaking a farm and how to support the process effectively. Young farmers considered as the most motivating subsidy support in the form of a start-up grant and then of complementary direct payment from the EU. They emphasized the role of other factors as motivation to start farming is also intrinsic. Because all respondents came from agricultural families, the key motivating factor was the family background. The farmers would welcome less administration and bureaucracy. It is necessary to think about how much administration is associated with obtaining subsidies and compliance with laws and regulations, because it is time-demanding and challenging. However, the main factor that is key to starting an agricultural activity and significantly hinders the further development of young farmers' economies is the lack of land. Here, the state still has large reserves to improve the availability of land for young farmers.

**Key words:** agriculture, generation change, managers, young farmers

**JEL Code:** J18, J59

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### Introduction

Agriculture suffers by lack of young farmers in the management of agricultural holdings. The perceived shortage of young farmers is part of an ongoing discourse about the aging of European farmers. (Zagata and Sutherland, 2015) „European Union is consequently faced with a dual problem: the scarcity of new and consequently young farmers and the rapid ageing of the farmer population.” (Kontogeorgos et al. 2014) There are 32 % of farms' managers in age group 55 to 64 years and 26.8 % is even retired (above 65 years old) in the Czech Republic. There are only 10.2 % of managers in the age under 40 years. More or less similar situation is also in other EU states. Therefore, it tries to support the generation renewal by subsidies that

have two forms. First is the support of the income under the first pillar of Common Agricultural Policy (CAP) that exists since year 2007. It is complementary (additional) payment to Single Area Payment Scheme (SAPS) in height of 25% of SAPS provided to every starting farmer under 40 years old for his or her first 5 years of activity and on his or her first 90 ha. The payment was 1697 CZK/ha and was provided to 5 604 farmers on altogether 126 123 ha (so average farm had 22.5 ha) in 2019. Recipients were mainly physical persons (95 %). (MoA, 2020). Second form of support are investment grants for young starting farmers on their business plan. The subsidy amounts to 45 thousand. EUR (1 250 000 CZK) and is paid in 3 instalments. The amount of the first instalment is 50% of the subsidy and is paid after the approval of the business plan. The second instalment is 45% of the subsidy and is paid after the second year of implementation of the business plan. The last 5 % is paid after 5 years. The farmer must have certain professional education. Young farmers also can participate on various trainings and information actions that are also supported from the EU's funds.

The efficiency of the measures to support the generational renewal is dependent on whether it meets the requirements and needs of young people. In 2015, around 2000 farmers under the age of 40 took part in a survey to help the EU better understand their needs and prepare appropriate policy measures. The survey found that young farmers have the greatest difficulty buying or renting land. In addition, they also needed financial support and access to credit and are struggling to find a skilled workforce. (Ecorys, 2015) The research was done for the whole EU, we focused on the Czech Republic and its young farmers as Czech agriculture is specific by having big companies that manage large acreage while the agriculture in the EU is based on family farms that are small. Šimpachová Pechrová et al. (2018) performed in 2018 a research where motivation and barriers of starting an agricultural activity was examined quantitatively. We now focus on qualitative questionnaire and direct interview with farmers.

## **1 Data and Methods**

The data were obtained from primary research. The questionnaire had several parts (see Tab. 1). The telephone survey took place from August to October 2020 and involved 8 young farmers, of which only one was a woman. The oldest farmer was 40 years old, the youngest 25. Average age was 30 years. The longest length of farming was 15 years and the least 3 years. While some started farming with 5 or 7.5 ha, others had 53 ha or 150 ha at their disposal since the beginning. The average area at the beginning of the activity was 32.6 ha, but the differences

were large. Mostly the type of production was mixed. Only one farmer employed one worker, otherwise they all farmed independently or with the help of their family.

The districts of farming were Vysočina, Beroun, Havlíčkův Brod, Znojmo, Uherské Hradiště, Plzeň sever, Žďár nad Sázavou and Děčín, so the sample varied in terms of distribution throughout the country. Only one farmer graduated from agricultural high school. Three graduated from the economy, informatics or international relations. Other respondents studied general agriculture, agricultural engineering and agroecology.

**Tab. 1: Questions asked in the questionnaire**

<b>Identification questions:</b> age, length of farming, acreage, type of production, nr. of employees, farming district, education
<b>Introductory questions</b>
What was your main reason that you started to farm individually?
Did you overtake or inherit the farm?
Did you enlarge the farm?
What obstacles did you face when starting an agricultural activity?
What obstacles do you face now?
<b>Measures for attracting young people to the agricultural sector, to start farming, to develop farming</b>
What measures do you think would help to motivate young people to enter the agricultural sector?
What measures do you think would help to motivate young people to start farming individually?
What measures do you think would help young start-up farmers to facilitate the start of individual farming business?
What measures do you think would help young start-up farmers to facilitate the development of business?
<b>Subsidies for attracting young people to the agricultural sector, to start farming, to develop farming</b>
Do you think that higher (complementary) payments for young farmers on hectare has significant benefit for them? In what area?
Do you think that investment support for business plan for young start-up farmers has significant benefit for them? In what area?
What measures do you think would be the most beneficial for young farmers? Why?

Source: own elaboration

## 2 Results and Discussion

### 1.1 Introductory questions

All respondents had a family background before starting their independent agricultural activity as all came from an agricultural family. This also facilitated their decision to engage in agriculture. They wanted to learn to farm independently and to manage demanding administration and communication with the authorities. However, the motivation came also outside family ties, for example to do something with nature.

Thanks to that all respondents had a family background, they also had easier access to the land. Although they set up their own farm, they received, for example, part of the land or even part of the production facilities from their parents' business. Some took over only 9 ha while others were given over 53 ha, which represented only a fraction (15%) of the area of the

parents' farm. It was the gradual takeover of the land that greatly facilitated the start of agricultural activity of the farmers. In the same way, the expansion was easier thanks to the family background. Young farmers tried to get more land – from their parents or by buying, which was difficult. One expanded the scope of its management to include cattle breeding and meat processing. Others purely increased the cultivated area.

As for the obstacles to starting an agricultural activity, everyone clearly agrees that the most difficult is to acquire land. It is therefore clear that if a young person does not have a family background starting of own business is difficult. „*The worst thing for us is the absolute unavailability of land. We cannot compete for land with dealers who are not engaged in agriculture at all. The second problem are long-term lease agreements. For example, here, all the cooperatives that hold the land have a 10-year notice period.*” According to Seeman et al. (2020) “in Czechia, 80% of farmers farm on hired land, and rent increases are starting to be an issue for many of them.” “*The worst thing is to get the land. I had to take a piece of land from my parents.*” Availability of land could be problem also because of its degradation. For example (Fitton, 2019) found out that in Europe, the vulnerable area was 20% of crop and 16% of pastureland.

Another major problem was access to finance. Farmers had a family background, but of course they had to obtain funds for investments (and sometimes for normal operation) by themselves. “*I have been struggling with (difficult) access to finance for a long time. There is a PRGLF<sup>1</sup> which gives young people an extra 10%, but if my parents did not guarantee me, I would not even get a loan from them because of the economic results.*” It is understandable that in the first years the economic results are worse and that the company is not profitable. This applies to any sector of the national economy, especially to agriculture, which is very investment-intensive in the beginning. To get a loan is also difficult, because at the beginning of the business the farmer does not yet have sufficient assets to be able to guarantee it or has only a small area of land. „Small Family Business Start-ups are particularly sensitive to access to credit.” (de la Fuente-Cabrero et al., 2019) “SMEs frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase.” (Ivanova, 2017) So banks are almost never willing to lend to young starting farmers. “*They offered me a consumer loan, which is for normal citizens who want to buy a washing machine... And at a crazy interest rate - 9%.*” High dependence on the weather also causes problems. Even if they fulfil agrotechnical deadlines and procedures, uncontrollable factors can affect the level of yields as well as

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<sup>1</sup> PGRLF – Supporting and Guarantee Agricultural and Forestry Fund

production costs. Purchase price volatility is also a problem. *“I had problems after the first harvest, when I found out what the real prices of commodities are and what my costs are.”* Agricultural prices are highly volatile as confirmed by Apergis and Rezitis (2003): agricultural output prices are shown to be more volatile than agricultural input and retail food prices.

Complicated administration also caused problems. Young farmers struggled with a lot of bureaucracy, for example, returning land to LPIS, obtaining subsidies, etc. The problems in expanding the scope of farming were similar to those they experienced when starting up, lack of land, price fluctuations, and, more recently, the difficulty of finding labor. *“I would expand, but the land is holding me back.”*

## **1.2 Measures for attracting young people to agriculture, to start and develop farming**

The second part of the questionnaire asked what measures can motivate young people, first to enter the agricultural sector and then to start independent agricultural activity. The word ‘measures’ was used in the questionnaire to cover a wide range of options, not just subsidies. According to young farmers, the problem with the internal motivation of young people is that agriculture is a demanding profession (lifestyle) and it is time and labour intensive. *“I think a man has to be born as a farmer. It's work outside, it's all daylong work.”*

Some stability and predictability of yields and a certain awareness that agriculture is profitable could help. Besides, it is important for parents to lead their children to farm and also to hand over the farm to them in time. When a young person studies another field and starts building a career in it, *“The problem is that today many young people are not willing to wait a few years for their parents to retire. They prefer to find a job and go to the city. And then they do not want to overtake the farm as they already have experience elsewhere.”*

Farmers saw the availability of land for farming and subsidies for investment in equipment as key support for setting up. *“If we want to support young people, the state needs to provide land for them, which young people could buy for farming. Because even state land is a problem to acquire. When someone already has it, he or she keeps it for several decades.”* As regards the financial incentive to start farming, respondents replied that the subsidies were beneficial for them. *“I think that the subsidies were the driving force for young people to get started with their own farm and reason why their parents rewrote part of the farm to them.”* Although subsidies may have helped young farmers to address the lack of funding in the beginning, they also have their drawbacks. The problem is that the payments are paid on the rebound for the already for already made investments. *“I think the start-up subsidies are high enough. But the farmer has to work hard, because he has to fulfil his business plan and has to*

*invest the whole amount, even if he only gets half of subsidies at the beginning.*” Besides, “a situation in which the farms become highly dependent upon subsidies could undermine the improvements in productivity and efficiency; that fact also makes it reasonable to address the impacts of intervention mechanisms designed to promote investments” (Czubak and Pawlowski, 2020)

Two respondents also appreciated the investment incentives from PGRLF, especially for the purchase of land. *“Although it was only an amount up to 400 thousand, it was enough amount for the beginning.”* This measure is especially suitable for growing such crops, which can do a great added value in a small area. According to one respondent, better condition for marketing of own products, processing on the farm would help with business development. *“By shortening of the retail chains, more money would go to primary producers and the industry would become more lucrative in terms of money.”* One respondent suggested supporting young start-up farmers similarly to start-ups in other sectors: *“lower taxes for new company for 2–3 years, lower contributions for employees.”*

However, it is necessary to realize that the motivation to enter agriculture and start a business is rather an internal matter. *“In my opinion, there is nothing that could motivate young people to enter. Even measure Start-up of young farmers basically already envisages that the farmer has been farming on some land and has some capital for some time.”* There are no measures to motivate a person who has already graduated from agricultural university or high school and who would like to start ‘from scratch’. In terms of business development, farmers consider it crucial to obtain finances. *“An interest-free loan would be useful if you don't have machines, buildings, ...”*

### **1.3 Subsidies for attracting young people to agriculture, to start and develop farming**

The third part of the questionnaire addressed EU subsidies: complementary direct payments for young start-up farmers and start-up investment subsidies. We also asked what form of support, according to the respondents, would be the most suitable for young people.

Farmers did not agree on whether complementary direct payments had a significant benefit. They acknowledge that this is a pleasant increase in finances but certainly it is not the main reason for starting a business. *“This type of subsidy does not have such a big impact. It's nice to get more money, it motivates parents to transfer more land on their children. But it's not the main motive for someone to start farming.”* Likewise, another respondent also acknowledges that this type of payment helps to pass the farm to the next generation. *“With payments it is more likely that the father will transfer the farm to the son.”* One respondent

suggests changing the principle of payment so that it pays longer and thus helps the young farmer for a longer period. „*It would help if the amount was slightly lower, but it would be paid all the time from starting a business to reaching the age of 40. This would help motivate older farmers to hand over their farms to their children as soon as possible.*”

As with every subsidy, there is also a risk of misuse. “*I believe that this measure can be misused, that farmers will transfer some parts of the land to their children only ‘on the paper’*”. Young people would then learn to farm independently soon and would also have greater motivation to study agricultural fields and to engage in agriculture in the future. Another respondent proclaimed that “*it would be better to support development later than at the beginning.*” The reason why young people start mostly as small is price of land. “*Land is more and more expensive, which is caused by subsidies. So, I support capping.*”

Another question in the questionnaire was about investment subsidies for setting-up of a young farmer. Respondents clearly agreed that this form of support makes sense. “*It's one of the best tools that helps that generational change.*” For some, the amount of the subsidy was sufficient. “*It's important because the farmer has to invest and develop his business.*” Another respondent argued that the amount is low. “*For setting up a business in agriculture is not the amount of 1250000 enough. You can't build a barn or buy even a hectare of land for the money.*” One respondent suggested reducing the amount in order to satisfy more applicants.

Respondents are aware that receiving a subsidy is associated with a number of conditions. “*A lot of people find out that it's not so free that you have to invest basically the same amount as you get as subsidy from your own sources.*” Two farmers, who have recommended the amount to be increased, also acknowledged that there are some problems with it. “*I saw 2 cases where it caused problems, when people could not finance it. Because they only get an advance payment, they had to pay everything from their sources that turned-up to be too difficult for them. They did not manage it administratively; they promised a lot in the business plan.*” “*I did not draw the subsidy personally. I applied for it, but for formal reasons I did not get it. I'm glad it didn't work out, because I promised many things, which would have been difficult to accomplish.*”

The respondent drew attention to the complexity of obtaining a subsidy, possible problems with the fulfilment of the business plan, and subsequent inspections. “*Measures are for those who already have something and have experience with administration in agriculture, but there is a great risk that one can get into trouble. If a person does not fulfil something, he or she will not receive the subsidy (or must return it). I think it is stricter here than in other measures.*” Another respondent agrees. “*There are big checks on the business plan, and the*

*'young' farmer is in the hands of State Agricultural Interventional Fund.*” Thus, respondents suggest significant simplification of this measure. It *“should be as simple as possible in order to motivate the young farmers to start and to give them the finances and the motivation to try it further.”* However, the administration is demanding. *“It is difficult for a farmer to obtain a subsidy. So either the farmers have people to advise them or they pays someone to help them with the application for a subsidy and with business plan.”*

Opinions on what form of support would be most beneficial for young farmers are not uniform, also because for every young person, something different is needed to get started. According to one respondent, the most beneficial measure would be 6.1.1 Starting young farmers if it were administratively simpler. According to another, *“increasing at least three times the investment support for start-up farmers and a marked reduction in subsidies to large companies would help.”* Another farmer would welcome improved promotion of farm products. Czubak and Pawlowski (2020) found out that *„the investment funds available under the second pillar of the CAP clearly provided an investment incentive.”* The increase was noted especially in terms of firms’ fixed assets, investment funds and size. Despite that in Czech Republic was noted a decline in the area of farms, it could actually be considered negligible, especially as the average farm area was very large. We can conclude that subsidies certainly are meaningful.

## **Conclusion**

The aim of the paper was to examine the possibilities of supporting the generation change of managers in agricultural holdings, what is the good practice in handing over the management of the farm and how to process could be supported *“The lack of young farmers puts under risk the survival of the sector itself, due to an inadequate rate of generational turnover in the sector.”* (Kontogeorgos et al., 2014) Main finding is that the motivation to enter the sector and to start agricultural activity is intrinsic and can be supported by subsidies. It facilitates the beginning, and also the development of a farm.

However, there are still big obstacles during start-up. Main barrier (especially for further development of a farm) is the lack of land (due to many reasons) and finances (banking credit is for farmers without history almost unreachable). Farmers also struggles with demanding bureaucracy. To overcome the lack of finances, investments subsidies for young starting farmers are seen as helpful, but farmers draw attention to the amount of them that is not sufficient. However, some farmers would rather grant a lower grant, but to more recipients. Supplementary direct payments for young farmers are seen as helpful from financial point of



view. They can also accelerate the handover of a farm from parents to children. Nevertheless, there is no measure that would attract young people to agriculture and help them from the very beginning. All provisions are designed for farmers who are farming already or people who already have relation to agriculture (e.g. from the childhood) and have strong motivation to start individual farming.

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