BRITISH AGRICULTURE BUREAU
REPRESENTING UK FARMERS & GROWERS

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Incentivising Generational Renewal – Lessons from Europe?

Executive Summary:

- In the EU and UK, more farms are managed by individuals above retirement age than by young farmers
- **In the current CAP, 3% of payments must be used to support generational renewal** whereas last year from a £2.4bn budget **in England, only £1m was reserved** for this purpose
- The UK is also severely lagging behind Western Europe in creating an agricultural labour force with formal skills training
- The UK can take lessons from support provided under the CAP, such as installation aid, investment support, and income support
- Inspiration should also be taken from initiatives outside of the CAP, such as guaranteed loan schemes, improved skills training and land matching services

The aim of this report is to explore the policies used to support young farmers in the EU through desk-based research and a survey. The UK and EU retain similarities in many aspects of agriculture, therefore, there is value in identifying the policy successes and/or failures of our European neighbours to better inform policymaking at home. The report also contains four **case studies**, giving more detail on interesting initiatives from the EU and further afield.

1. Background

The ageing demographic of farmers in the EU and UK is a significant concern. In England in 2023, **only 16% of principal farmers and holders were under 45 years old, compared to 35% aged over 65**[1]. The ageing profile of the farming population is one of the major challenges facing rural areas. Many farms in Europe have no successors and many potential entrants to farming are deterred by what they view as the poor quality of life that farming offers as a result of factors such as low income prospects and limited rural services. When young people do join the industry, they are beset by challenges such as high land prices, lack of collateral to secure loans for investment, and an uncertain policy landscape.

Young farmers are best positioned to use new and innovative technologies and are more willing to embrace sustainable practices[2]. Younger farmers also help to maintain the vitality of rural areas,

[1] Agricultural workforce in England at 1 June 2023 - GOV.UK (www.gov.uk)
[2] Evaluation SWD Generational Renewal (europa.eu)

supporting local businesses and schools. Therefore, it is important that there is sufficient support to enable younger people to succeed in the industry.

Before the UK's exit from the EU, support for young farmers and new entrants was largely the preserve of the Common Agriculture Policy (CAP). A 2021 EU wide report found that between 2014-2020 the CAP was found to have had a 'weakly positive' impact on the number of young farm managers[3]. Following EU-exit, each UK nation now determines agriculture policy and thus is responsible for administering any young farmer support. While the ambition should be for more than a 'weakly positive' intervention, lessons should be learned from practices in Europe, both within and outside of the scope of the CAP.

1.1. Defining a young farmer

A first step in designing future support is identifying who is the target of the intervention. In the EU, individuals must be under the age of 40 to qualify for young farmer support. However, some support may require a young person to demonstrate that they are a genuine 'new entrant' to the industry. The definition for this may be subject to a range of different conditions but is usually linked to how long the individual has been an active farmer.

1.2. Young farmers in the EU

The EU has a similar ratio of younger to older farmers as in the UK, however, the situation in each Member State varies significantly, as shown in Figure 1. For example, in Austria 23% of farms are managed by someone under 40, whereas in Greece only 7% of farms. This variation is due to a range of regional and local factors, including the different application of CAP funding.

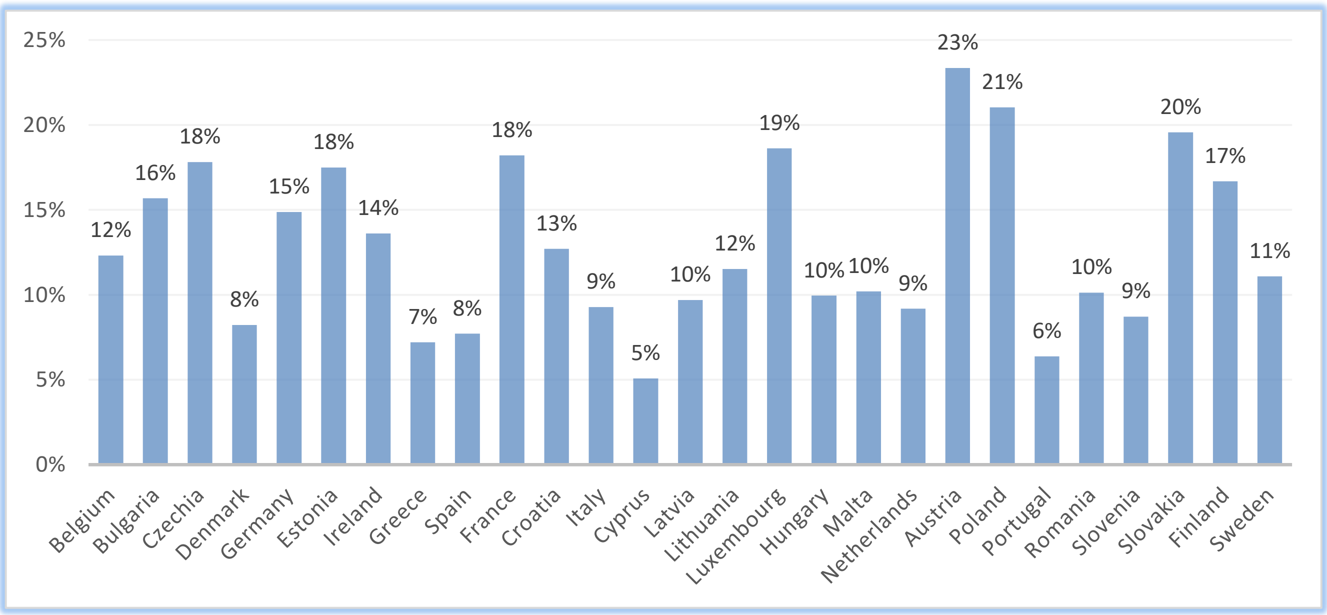

Figure 1 - Farm managers under the age of 40 as % of total farm managers (2020)[4]

[3] https://agriculture.ec.europa.eu/system/files/2021-04/ext-eval-cap-gene-renewal-study-report_2021_en_0.pdf
[4] Statistics | Eurostat (europa.eu)

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2. The challenges

The challenges facing young farmers can also vary between Member States, contributing to the mixed picture highlighted in Figure 1. Therefore, it is useful to get a broad range of views on which are the main barriers preventing young farmers from succeeding.

It is important to hear from them directly, which is why a survey was conducted allowing young farmers from across Europe to feed into this report. The survey was conducted alongside CEJA (the Council of European Young Farmers), using their member network of European young farmers. They were asked to give a score rating the significance of different barriers to generational renewal (encompassing succession and new entry). The high price of land was found to be the most significant barrier, followed by uncertainty surrounding future policy and low profitability.

Rank	Barrier to renewal	Average Score (1-5)
1	High prices of land	3.6
=2	Uncertainty surrounding future policy	3.3
=2	Low profitability	3.3
4	Low availability of land	3.1
=5	Inheritance laws	3.0
=5	Complexity of administrative requirements	3.0
7	Difficulty in accessing credit	2.9
8	Poor services in rural areas	2.7
9	Difficulty accessing business advice	2.0

Figure 2- Ranking of the most significant barrier to generational renewal taken from a survey of members of the Council of European Young Farmers (CEJA) (1=Not a barrier, 5=Critical barrier)

Some challenges, such as low profitability and poor services in rural areas, are common both to succession in family businesses and to new entrants. However, other challenges are more specific to one group or the other.

2.1. Challenges in succession

In succession, there are the unique challenges relating to the transition between one generation and the next. Some member states, such as Sweden, have no inheritance or gift tax, which neither incentivises nor penalises an early gifting of land or other assets (remembering that in the tenant sector, despite land not being passed down, other valuable business assets are). However, in other Member States there are inheritance taxes without full relief for agricultural assets which encourages an early handover but also penalises the inheriting generation if a handover is not complete before death. It is no surprise, therefore, that **CEJA members anecdotally report they face the same challenges in Europe as faced in the UK when navigating family and business relationships to manage the succession in the best way.**

2.2. Challenges for new entrants

For new entrants, the issue of high price and low availability of land are more salient than issues relating to inheritance, as there is no previous farming generation to pass land down. To overcome this problem requires access to a significant level of credit. In research funded by the EU, it was found that there is a financing gap of over €62 billion in EU agriculture and agri-food businesses[5]. This number represents the unmet financial demand from viable businesses. Despite representing under 16% of businesses, young farmers make up 22% of this unmet demand and are **two to three times more likely to have a loan application rejected.**

Within the survey, the challenge of policy uncertainty was particularly noted in the Netherlands due to the regulation surrounding nitrogen allowances which has placed severe pressures on agriculture to extensify. This has resulted in an increased demand for land, placing upward pressure on prices. There is now a similar increase in demand for land to comply with nitrogen regulations in Ireland. **Policy uncertainty also reduces the willingness to take on the risk of significant debt as a new entrant**, as new policies could throw business plans into disarray.

3. Main forms of support under the CAP

Figure 3- 'Total public expenditure on generational renewal as a share of total public expenditure under each CSP according to the allocation for main tools' – Approved CAP Strategic Plans 2023-27[6]

In the current CAP (2023-2027), Member States are **obliged to spend a minimum of 3%** of their initial envelope for direct payments towards the objective of generational renewal. Member States must then decide how to use this money**.** 22 Member States choose to allocate more than the minimum requirement.

[5] Financing gap in the EU agricultural and agri-food sectors | fi-compass
[6] CAP Strategic Plans - European Commission (europa.eu)

Figure 3 shows how Member States choose to allocate funding for generational renewal by highlighting the main tools of: **complementary income support, installation (start-up) aid, or investment support**. Most countries prioritise installation aid, delivered through Pillar 2 of the CAP, however Germany (DE), Sweden (SE), and Ireland (IE) are examples of Member States where most support is instead delivered through Pillar 1 as income support. Both Malta (MT) and Greece (EL) are notable for prioritising generational renewal within their spending plans, allocating significantly more than the minimum requirement.

3.1. Complementary income support

Complementary income support is usually delivered as an **area-based payment**, 'topping up' direct payments. This tool aims to augment the incomes of young farmers while they are potentially less profitable in the early years of managing their businesses. Some countries choose to place an upper limit on these top ups. In Sweden, a young farmer can receive income support of approximately 109 €/Ha for the first 5 years after they start up as a farmer, restricted to a maximum of 200 hectares. In Austria, these top ups are instead limited to the first 40 hectares. When asked to rank policy instruments in the BAB survey, income support was viewed by young farmers to be the most effective at encouraging generational renewal.

3.2. Installation (start-up) aid

Installation aid often takes the form of **lump sum payments**, giving cash to new entrants to purchase equipment & livestock. In Flanders, this support ranges between €40,000 and €100,000 when taking over or starting a farm. In Finland, grant payments for start-ups require some agriculture related education and the level of grant is determined by the level of entrepreneurial income up to a maximum grant of €40,000, which can be augmented by a loan of up to €250,000. In France, young farmers working in partnership on the same farm can both claim this support, however, in most Member States there can only be one claimant per agricultural holding which disappointingly discourages these types of partnerships.

Though installation aid was voted in the survey to be the second most popular policy intervention, for large scale investment including any purchases of land, young farmers still need the support of lenders, which as outlined earlier is difficult to obtain.

3.3. Investment support

Investment support relates to **grant payments** for the purchase of equipment. Some countries choose to offer young farmers preferential payment rates on existing farm grants offered under Pillar 2 of the CAP. This is typically an extra 10% offered above the standard rate. However, anecdotally young farmers in Europe reported that they struggle to compete with more established businesses in the competitive bid process for grants due to being a new and often small enterprise. Grant payments are also typically made retrospectively, which is unhelpful if the new business does not have the cash or credit available to purchase the relevant piece of equipment initially.

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4. Support outside of the CAP

The report from the Commission to the European Parliament and the Council, summarising the CAP Strategic Plans 2023-2027, recognises that the CAP only partially addresses the needs of young farmers, with further complementary support required, particularly at a national level[7]. This support comes in several forms, examples of which are summarised below.

4.1. Financial instruments

Where the supply of traditional loans has been unable to meet the demand for credit from young farmers, other financial instruments have been employed to bridge some of that gap. Incentives for lenders to finance new entrants such as the European Investment Bank loan scheme[8] (see **Case Study 3**) or government guaranteed loan schemes can increase the access to finance. Out-with the EU, the US Department for Agriculture's Farm Service Agency offers joint financing with commercial lenders, guaranteed loans, as well as down payment loans, all of which offer favourable interest rates and a higher level of acceptance for eligible agricultural producers[9] **(see Case Study 2)**. These instruments illustrate how governments can take on some of the risk of lending to young farmers, thereby encouraging commercial lenders to offer more affordable terms.

4.2. Land matching services

Financial aid, however, only goes so far. Only 8% of EU land for food crops is on sale every year, and the system of direct payments has been acknowledged by the EU to increase the reluctance of older farmers to make land available, as continuing direct payments serve as a form of income support in retirement[10]. This tight availability of land also applies in the tenanted sector where rental rates become prohibitively high.

Land matching services and retirement incentives have been used to incentivise an opening of the land market, however, other factors such as inheritance and gifting laws can affect the ability and willingness of farmers to pass land down to their children or to lease it out to young tenant farmers. **Case Study 1** highlights the Irish example where tax incentives have increased the effectiveness of their popular land matching service.

4.3. Education

Whilst not recognised in the survey as a top barrier to entry for young farmers, skills training is also important. For some young people, choosing an agricultural education may be their first exposure to the industry, offering an important first step. An offer of agricultural training can encourage the spread of new and innovative practices as well as offering young people the opportunity to learn about the business side of farm management. This is important when producing business plans. Of the loan applications made by

[7] com-2023-707-report_en.pdf (europa.eu)
[8] EIB to unlock EUR 2 billion for agriculture across Europe with special support for young farmers
[9] Farm Loan Programs (usda.gov)
[10] Evaluation SWD Generational Renewal (europa.eu)

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young farmers in the EU which were refused in 2019, 18% were because they had an inadequate business plan, compared to only 1.6% of the loans refused to farmers over 40, highlighting the importance of those skills.

Figure 4 shows that in 2016 (the last year with comparable EU and UK data) the UK lagged significantly behind other Western European countries in the proportion of farm managers with either basic or full agricultural training. Practical experience alone is harder to come by as a genuine new entrant and is less likely to deliver the business skills required to gain the confidence of lenders.

In France, there is a requirement to have a Level 4 qualification (equivalent to A-Levels in England) in agriculture to access young farmer support, which encourages farmers who are succeeding their parents to rely less on practical experience alone and to seek professional training. A resultant increase in agriculture related courses increases the opportunity for genuine new entrants to also study, bringing in people from more diverse backgrounds with new ideas and perspectives. French young farmer organisation Jeunes Agriculture report that 40% of young farmers in France are genuine new entrants, which suggests that this may be having the desired effect.

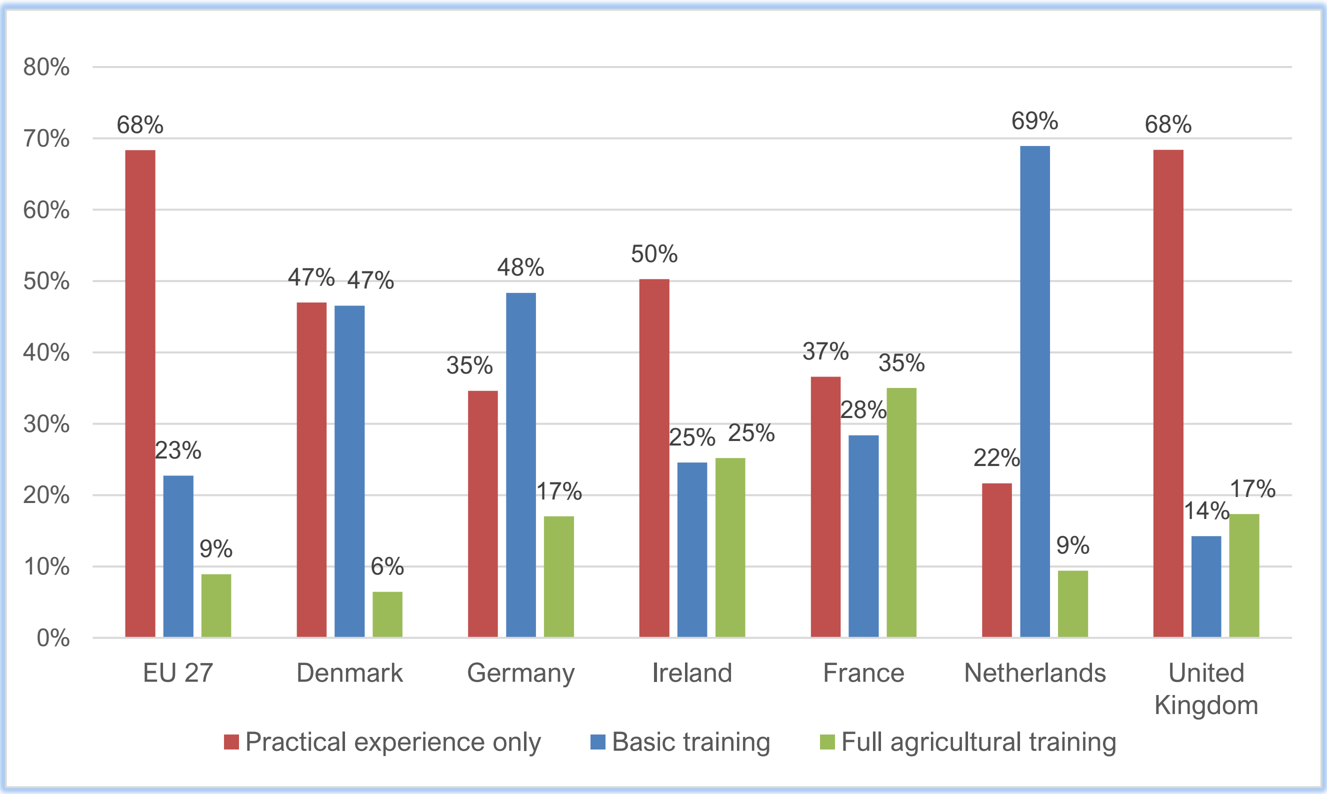

Figure 4- Proportion of farm managers by education type (2016)[11]

[11] Statistics | Eurostat (europa.eu)

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5. Recommendations

Generational renewal is a complex issue. Each country is faced with a different cultural, legal and tax system. When designing policy, examples of good practice should be considered within these different contexts to create a holistic policy landscape which enables young farmers to thrive.

Young farmers face disadvantages when accessing finance. The EU has sought to find solutions to the finance problem through grants, investment support and financial instruments. The UK should also seek solutions to this problem and can be encouraged by the success the EU had in mobilising private finance through the EIB loans package explored in **Case Study 3.**

Future policy should not disincentivise farmers from passing on their land as they retire, instead encouraging solutions such as share farming **(see Case Study 4)** partnerships and leasing, which give financial security to the farmer stepping back whilst also opening the door to the next generation. Inspiration could be taken from the success of the land matching service in Ireland **(see Case Study 1)**, which can partly be attributed to the complementary tax breaks that incentivise leasing.

The UK is also failing to match other Western European countries' outcomes in agriculture skills training. Too few farm managers in the UK undertake formal skills training, which could leave the next generation underprepared for the challenges of farming into the future. The French approach of linking professional training to support payments is one way to incentivise uptake, however, there must be sufficient quality and quantity of courses on offer.

Finally, young farmers in the UK are faced with significant uncertainty as the post CAP support schemes are still at varying stages of development in the four UK nations. According to EU young farmers, policy uncertainty is the second largest barrier to entry. Establishing policy certainty in the UK would be a positive first step, giving young people the confidence to join the industry and banks the confidence to lend.

To avoid a continually ageing farmer demographic in the UK, a complimentary combination of policies should be designed to unlock the potential of the next generation. This report has illustrated that the UK can take inspiration from the policies enacted in Europe.

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Case Study 1: Ireland

Macra Land Mobility and Generational Renewal Facilitation Service[12]

The Land Mobility Service is an initiative of Macra na Feirme, the organisation representing young farmers in Ireland aged between 17 and 35. **Joint funding from industry, the Department of Agriculture, and subsidised landowner/farmer** fees enables the service to provide options for landowners and opportunities to young farmers through matching and facilitating arrangements which are designed to be sustainable and work for all parties. Since 2015, the service has facilitated over 960 arrangements **exceeding 75,000 acres.**

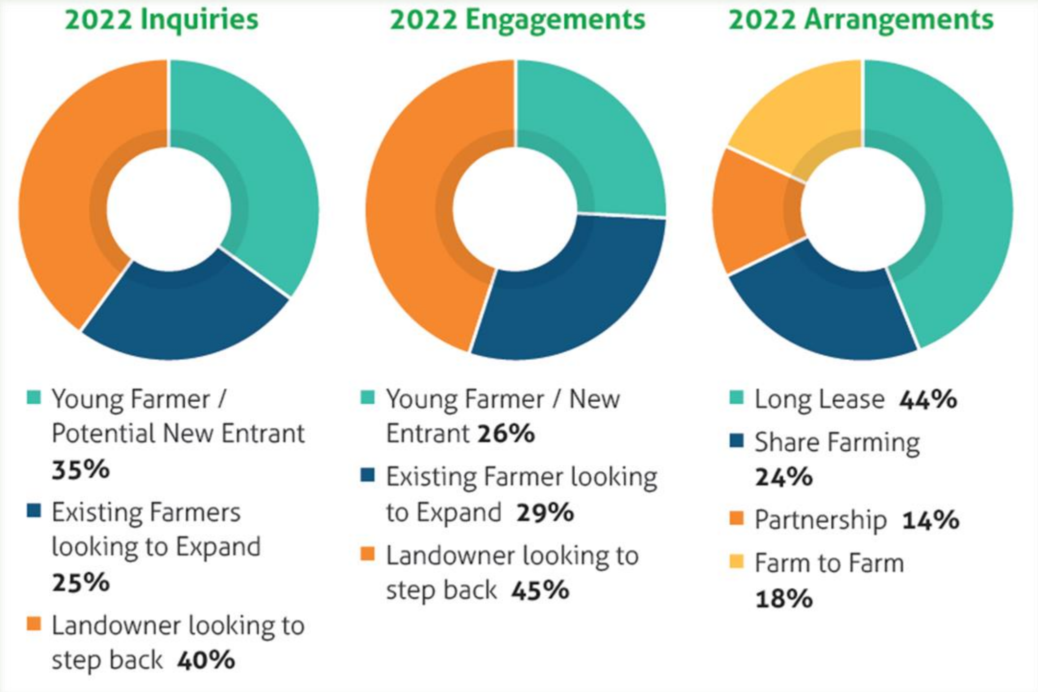

Figure 5 - Engagement with the Land Mobility Service in 2022[13]

In 2022, **40% inquiries were from landowners looking to step back**, indicating that there is potential for increased land supply. A significant proportion of the subsequent arrangements included share farming and partnership arrangements, which have allowed the stepping back landowner to continue having an active role in the business and retain their active farmer status, whilst also imparting skills and knowledge to the young farmer/new entrant. Long term lease arrangements are encouraged with **income tax exemptions made available to the landlord if a longer tenure is offered**, creating an incentive for the landlord to put the land on the market and offering more certainty for a farmer taking on the lease.

Find out more about the service here or listen to farmers discussing their experiences here.

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[12] Land Mobility Service
[13] Download Library - Land Mobility Service

Case Study 2: USA

USDA Farm Service Agency – Farm Loan Programs[14]

The U.S. Department of Agriculture recognises that building a successful farm is a significant financial investment and can be especially challenging for beginning farmers. The USDA's **Farm Service Agency (FSA) makes and guarantees loans to beginning farmers**, with a special focus to farmers who are in their first 10 years of operation.

'Beginning farmer' definition in the U.S.

- Has not operated a farm for >10 years
- 'Substantially' participates in the operation
- For farm ownership loans, the applicant cannot own a farm greater than 30% of the average farm size in the county

Maximum Loan Amounts

- Direct farm ownership: $600,000
- Direct operating loan: $400,000
- Microloan: $50,000 each for operating and farm ownership
- Guaranteed farm ownership or operating loan: $2,236,000
- EZ Guarantee ('easy' streamlined application process): $100,000 ($50,000 if the lender is a micro lender)

Farm ownership loans can provide access to land and capital. Loans are offered either directly from the FSA, or as guaranteed loans which unlock a higher maximum loan amount. The FSA also provides its direct loan customers credit counselling and loan supervision.

Program	Interest Rates
Farm Operating - Direct	5.625%
Farm Operating - Microloan	5.625%
Farm Ownership - Direct	5.875%
Farm Ownership - Microloan	5.875%
Farm Ownership - Direct, Joint Financing	3.875%
Farm Ownership - Down Payment	1.875%
Emergency Loan - Amount of Actual Loss	3.750%
Effective as of January 1, 2024	

Figure 6 - FSA Loan interest rates

Down payment loans are another farm ownership loan program which part finances farm purchases at a cheaper rate, with remaining value to be borrowed from another lender (45% financing up to a maximum loan of $300,150).

Retiring farmers may use this program to transfer their land to future generations, even operating as the lender for the remaining balance if they should so wish.

In 2022, the Farm Loans Programs financed over $3 billion of support for beginning farmers across 14,000+ individual loans[15].

Find out more here.

[14] Loans for Beginning Farmers and Ranchers (usda.gov)
[15] Program Data (usda.gov)

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Case Study 3: European Investment Bank

2019 EIB Loans Package[16]

In April 2019 the EIB announced the launch of a loans package worth nearly **€1 billion for agriculture and the bioeconomy**. Within the package, EUR 700 million is reserved for small and medium agricultural enterprises, a 10% minimum of which is dedicated to supporting farmers under 41.

The scheme helps young farmers benefit from **improved terms such as longer payback periods of up to 15 years and up to 5-year grace periods** in order to address their specific needs. This is one of the largest agricultural financing initiatives backed by the EIB.

The initiative aims to scale-up investment in the agriculture sector, which has been underserved by the banking system due to its perceived high risk.

Figure 7 - EIB infographic showing loan rejection rates for farmers in the EU

Main reasons for a banks' refusal of a loan to young farmers

- Perceived risk of investment (60% for young farmers vs 18% for older farmers)
- Lack of appropriate collateral, such as land or buildings (24%)
- Perceived risk linked to new farm businesses (15%)
- Inadequate business plan (18%)
- Non-acceptance of livestock or other moveable farm assets as collateral, e.g. machinery (11%)

CEJA (the council of European Young Farmers) welcomed the join initiative following consistent advocacy for better tools to deal with the challenge of access to credit. 95% of the loan programme was committed within the first 6 months[17], highlighting how useful this scheme was for young farmers.

Find out more here.

[16] EIB to unlock EUR 2 billion for agriculture across Europe with special support for young farmers
[17] Supporting farmers in Europe: 95% of €1 billion programme loan committed within six months - European Commission (europa.eu)

Case Study 4: Share farming in Denmark

Example of share farming on a Danish dairy farm

A member from the Danish young farmers organisation who regularly represents his group as a delegate at meetings of CEJA, has shared his experience of entering a **share farming arrangement** for a large dairy farm with a milking herd of approximately 400 cows.

Patrick and his business partner, both young farmers, have invested in an operational farm. The farm is registered as a company, with **the two young farmers each purchasing a 15% stake.**

Under the arrangement, a portion of this stake is raised via a loan from the current farmer, meaning the young farmers require less from a commercial lender. This arrangement is based on trust between the two parties.

With a 15% profit share each, the young farmers intend to pay back the loan to the farmer in the next five years, before going through the same process to gradually increase their ownership share. **The current farmer hopes to sell their remaining shares within 15 years**, so long as the profits are there for Patrick and his partner to continue buying them.

However, Patrick and his business partner **cannot access young farmer installation (start-up) aid** to help them buy their stake in the business. Under the criteria for support in Denmark, an individual must have at least a 25% stake in the business and be able to demonstrate that they manage the farm on a day to day basis[18].

This highlights **one of the flaws in the conditionality of young farmer support in some cases**. This arrangement is progressive, allows two young farmers to get a foot on the ladder, and allows the current farmer to comfortably step back, however, it is not supported by the current framework of young farmer support in Denmark.

[18] 22.04.19_borgerresume_engelsk_endelig.pdf (lbst.dk)