Keeping young farmers in rural areas

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Keywords: ageing, young farmers, agricultural education, subsidies, agricultural information system.

Summary findings, conclusions, recommendations

Agricultural subsidies alone cannot solve the aging problem of rural areas. In some cases enthusiasm is not enough, because a lack of financial resources prevents young farmers from launching enterprises. Isolation, lack of information and subsistence insecurity are all problems faced by young farmers, which need to be managed. It would be reasonable to extend the support scheme provided for new enterprises to also include those farms which have already been launched, but have not yet reached the size considered viable. Considering that the subsidies involve retrospective financing and that the majority of young farmers are lacking capital, increasing the amount of the advance payment would also be recommended. Young farmers could be further supported by providing subsidies for voluntary cooperation and by setting easier terms for purchasing land from the National Land Reserve, as well as by developing the rural infrastructure and a comprehensive agricultural education system, including management training.

Introduction

There are less and less young people who think that agriculture can provide a secure income and are willing to overtake the management of a farm. The support system did not prove sufficient to solve the generation problem of the rural agricultural population. The scheme of early retirement was planned to be started from 2006. This measure could provide income to the elderly generation and at the same time provides opportunities for the young people to start an enterprise. It is unfortunate that this scheme could not be implemented in time.

Most important questions are for the coming years: Who will cultivate the land? What will happen to the rural areas? Why are the young farmers so small in number? Farmers, local interest representing bodies, politicians and researchers are trying to find the reasons of the unfavourable social and economic changes affecting the rural population and are also analysing the possible consequences. Most of the studies are focusing on the unfavourable demographic trends of the last decade.

In the last two decades the population of Hungary has gradually decreased; in 2005 it hardly exceeded 10 million. Paralell to the decreasing population the other unfavourable tendency is the ageing of the population, which from the nineties can also be observed all around Europe. This unfavourable trend can also be seen in Hungary. On the basis of the data published by the Hungarian Central Statistical Office (KSH) in 1870 only 5% of the population was older than 60, while in 2005 every fifth citizen was over 60 (Table 1).

Table 1

Population over 60

Year	National ratio, %
1870	5.1
1900	7.5
1930	9.8
1960	13.8
1970	17.0
1980	17.1
1990	18.9
2001	20.4
2005	21.2

Source: Census, 2001.20. Living conditions of the elderly. KSH. 2004

The problems of the society have, of course, an impact on the various sectors of the national economy. The problems caused by the decreasing and aging population can also be seen in agriculture.

The decrease of rural population was the most significant in the sixties. Due to the collectivisation taken place between 1948 and 1967 and to the extremely high public charges approximately 300 thousand people abandoned agricultural activity and tried to make a living in other sectors. The nineties brought about other changes in the agricultural economy. following the economic and political transition of Hungary, the Acts on privatisation, compensation and on cooperatives had effected radical changes in the structure of ownership and land use as well as had a significant effect on the forms of farming and on agricultural employment.

In 1999 the total number of the employees of agriculture, forestry and fishery was 275 thousand and by 2005 this number decreased to 194 thousand. From the regions of Hungary most agricultural employees can be found in the region of Southern Great Plain. However, this is the region where the most intensive decrease were experienced in the last 15 years. Peripheral small settlements are in the most disadvantageous situation, where infrastructure is at a low level, skilled labour force is scarce and the sector of commerce and services is also undeveloped.

Owing to the unfavourable changes of the economic and employment policy the rural population decreased during the last decades. The majority of those who were earlier engaged in agriculture moved from the villages to towns for making a living. On the basis of the household income surveys of KSH, it can definitely be seen that between 1962 and 1982 the income difference between the capital and the other Hungarian towns and settlements was slowly decreasing but from 1982 the differences started to increase again and since 1990 it has significantly increased.

It can be seen that the young generation escapes from the futureless agriculture and only elderly people who are bound to the rural areas even if employment, infrastructure and services are lacking there. On the basis of the statistical data of 2005 52% of individual farmers are over 56 years (Table 2). The share of pensioners in family labour of indivi-

dual farms accounts for 40%, and the family labour of the young generation (under 40) decreased to its half between 2000 and 2003. In 2005 less than 16,000 young farmers under 35 years were registered.

Table 2

Average age of individual farmers

	Male			Female		
	2000	2003	2005	2000	2003	2005
Average age, year	52	54	53	58	59	57

Source: KSH, Farm Structure Survey of 2005

By looking ahead it can be summarised that in a few years a significant part of the farmers will become too old for doing efficient farming. However, the agricultural sector will still be important in the national economy since the natural conditions in Hungary are excellent for agricultural production. Consequently, the management of the demographic unbalance and the creation of more favourable conditions for the young farmers for farming are of utmost importance.

How to keep the young farmeres in rural areas?

By which measures can the young generation be attracted in rural areas and how can they be encouraged to start an enterprise?

1. Financial means:
a) Subsidies
b) Loans
2. Opportunities:
a) Assistance to land acquisition
b) Strengthening the local cooperation
c) Development of vocational training
3. Information means:
a) Development of the agricultural information systems

1. a) The support scheme aimed to assist young farmer's enterprises will also be avaible during the programming period of 2007-2013. This support scheme has been applied since 1998, first it was financed from the national sources and later from the community budget. It could more effective if some of the requirements of tendering were modified. For example, it is a difficulty that no tender can be submitted by a farm over 2 ESU. There are a great number of young farmers who are already engaged in farming as the parents can provide the background for launching an enterprise. Some of these farms exceed the above size limit but they are not yet viable. In the frame of the support scheme it would be worthwhile to provide assistance also to those farms which have already be launched but are not viable yet. Consequently, the size limit should be increased or eligibility should be determined on the basis of the viability of the farm.

It is characteristic that the majority of the young farmers do not have any initial capital. Another difficulty of the scheme is the post financing. From 2005 advance payment of 25% can be financed in the frame of all support schemes financed from the Structural Funds. By increasing the amount of the advance payment the young farmers could be encouraged to launch forth an enterprise.

b) Among available loans the loan provided by the MFB (Hungarian Development

Bank) is the only loan on the market which is also aimed at young agricultural entrepreneurs. This loan provides first of all favourable financing for the investments of SMEs in the fields of agriculture and food processing. One of the sub programmes provides assistance definitely to young agricultural producers for launching forth an enterprise. The loan requires own capital from the young farmer minimum 15% of the net budget of the investment. The amount of the loan is HUF 5-50 millions and the rate of interest for 3 months EUROBOR is maximum 3.75%. It is interesting, however, that by the summer of 2006 from the HUF 40 billion budget of the programme HUF 28 billion has not been used up yet.

2. a) It is reasonable to connect the subsidies provided to young starting farmers with the support scheme of early retirement since most young farmers take over the farm from their parents. In order to facilitate the land purchase of young farmers from the National Land Reserve priority and preferential prices should be provided to them. By easing the terms of land purchase the young people who do not have an agricultural family background and are going to abandon the rural area due to hopeless conditions of farming would also be encouraged to stay.

b) For managing the farm profitably not only the subsidies provided to land purchase and the loans but also the plans for the machinery, the sales and supply are required as well as finding suitable partners. During the last years the strengthening of the POs could be seen, however, the organisation of the farmers and the cooperation among the producers, processors and traders are still at low level. The POs account for only 12% in the total output of horticulture; in the case of animal products only 18% is provided by POs. The organisational level of the producers, who account for the majority in agricultural production, is low so this weakening their negotiating position. In order to integrate the supply of enterprises and adjust the production to the market demand it would be desirable to strengthen those local organisations which aim to perform these tasks. By the end of 2006 about 850 POs were established. The efficiency of the organisation could be increased by safeguarding for the interests of more than 12-15,000 members. First of all it would be important to increase the membership of the POs rather than their number. In the future more subsidies should be provided to the cooperatives. It would be good if the negative image of cooperatives deriving from the past could be changed since cooperation could help in the competition by decreasing the disadvantages due to the fragmentation of the properties, depreciation of the machinery and to the lacking supply and sale relationships. The young entrepreneurs would be an ideal target group to revitalize cooperation. In contrary to elderly farmers young people are less tempted by the past and are able to react to the new challenges more flexibly.

In Hungary there are 431 Telehouses, which provide various services. They recommended forming a section for young farmers where each farmer could register. On the website the most important data of farming would be published: such as the starting date, the farm size, the number of employees, the title of the support awarded, the projects to be implemented, the supply and sale channels, the lacking resources of farming and the business partners of the farm. Of course, it is only the entitled farmer who can authorize the access of the data. The on-line operation of the system ensures that the young farmers have access to the data and can develop business relationships.

c) The qualified farmers are also lacking in agricultural production. However the institutional background of agricultu-

ral education has been established but the qualification level of individual entrepreneurs is low. In 2005 4.9% of the managers of self-subsistence or semi-sefl-subsistence farms had a basic level qualification; 7.4% had a medium or higher level qualification.

Furthermore, in the group of commercial farms the qualification level of the farmers' is extremely low; 80% of the farm managers have not got a qualification of medium or high level. Since the Accession it has turned out that the manager of a farms requires in addition to the fundamental agricultural and technological knowledge more and more information on management, marketing and IT. He has to be familiar with the legal labyrinth of subsidies, and the EU requirements.. Among the requirements of the support scheme for young starting farmers the qualification requirement should become more important and the qualification level required should also be increased. In the evaluation the participation in a trainee programme abroad should be more weighted. On the basis of the experience of the Educational and Advisory Institute of the Ministry of Agriculture and Rural Development (FVM) the farmers who participated in such programs have gained great experience and have ideas and after returning home they are more enthusiastic over the enterprise.

In the future the participation of young starting farmers in adult education should also be supported. In the present programmes of adult education the above-mentioned subjects such as, EU-studies, accountancy, management and marketing should also be included. The young farmers having up-to-date information could better adapt to the new requirements of the market and in this way, the competitiveness of their enterprises could indirectly be improved.

3. a) The development of the on-line information systems mentioned above would fill a great gap. At present in Hungary no database is available which could provide an overall picture of the enterprises managed by young farmers and on the information required by them. In addition to the database this system could also include the current calls for tenders, the list of accredited experts of extension and proposal preparation, the interest representing bodies in close location. This system could provide an opportunity for organising the supply and the sale and form the demand and the supply. The list of POs and Machinery Circles located in the region of the registered farmer could also be found on the website. This way the farmers who have authorized their data all over the country could be contacted. By the help of the data (e.g. location of the enterprise, field of activity) it would be possible to contact the right persons and organisations engaged in the management of the farm.

At present in the Hungarian agriculture there are 1.6 server per 100 employees and more than half, that is, 65% of the agricultural enterprises do not have an own homepage and do not plan to have one. Therefore it is of the utmost importance that the young farmers have access to internet at least in the Telehouses and can find most of the information required. In agriculture every fifth employee works on a PC. This is due to the lacking financial resources. From among those who work on a PC only 10% have internet access.

In the future by distributing the national and EU subsidies more attention should be paid to the technical and IT development of agricultural enterprises.

In the above we did not mention the lacking technical background, which prohibits agricultural production. Certain elements of agricultural production and forestry, the roads, servicing facilities, post-harvest facilities, storage capacities

and equipment required by forest proprietors are all lacking or are depreciated. .

The unbalanced distribution of the male and female farmers among young farmers was not discussed among the problems to be managed. The fact that the number of female employees is very low in agriculture may also have an effect on launching forth an agricultural enterprise. Will the young entrepreneur find a partner for farming? What are the perspectives of a woman who is an agricultural entrepreneur? These are the further questions which have to be answered for the long-term development.

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