

# Young Farmer Finance Schemes

A report for



by Damian Murphy

2012 Nuffield Scholar

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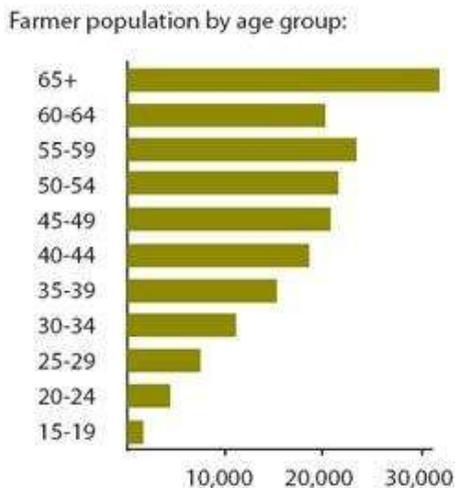
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# Foreword

When reading this report please keep in mind that it is aimed at benefiting the whole agricultural industry and not just Young Farmers. When you look at the data regarding age of farmers there needs to be people progressing through agriculture working on farms, share farming, leasing farms, buying farms, cattle, cows, purchasing crop inputs, living and bringing up their family in the country while contributing to the economic growth of Australia. If we don't have this progression then who will have the combination of skills, knowledge and assets to feed the world and provide food security for Australia?

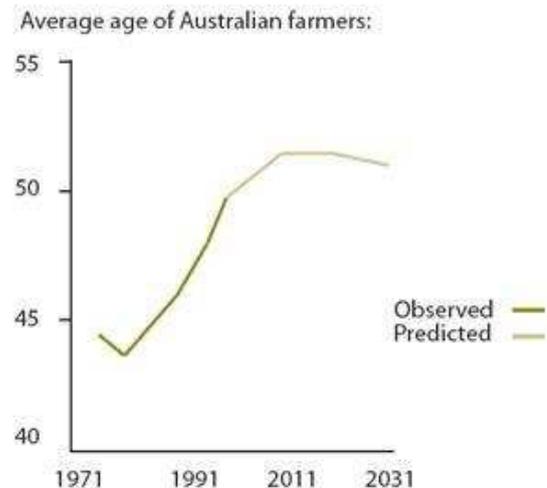
To make sure we attract and retain the next generation we have to have all areas of industry entry and progression working well. These include finance, share farming, leasing, vendor finance, equity partnerships, joint ventures as well as training and education to support this.

**Figure 1.**



NFF Farm Facts. (2012).

**Figure 2.**



The above graphs show that we have a large population of farmers over the age of 55 who will hold substantial assets in agriculture that will need to be transferred in one way or another in the next couple of decades. As a farmer we are always pushed to grow, innovate, become more efficient and more professional but as an industry have we forgotten this problem of our ageing farmer population?

Finance is relevant to nearly every farmer no matter what commodity they produce. For the next generation of farmers the amount of equity needed to be in a position to purchase an asset in agriculture can be quite daunting.

Agriculture would benefit if a co-financing model could be implemented that assisted farmers with the equity requirements needed to gain a loan from a commercial bank.

This study has been sponsored by:



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Although it is hard to single people out I could not complete this without special mentions to Joe Delves (2012 UK Nuffield Scholar), Graeme Nicoll (2010 Australian Nuffield Scholar), Aisling Meehan (2011 Irish Nuffield Scholar), Scott Yule and the team at Farm Credit

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Thank you.

# Abbreviations

AFSC	Agriculture Financial Services Corporation
BFLP	Beginning Farmer Loan Program
BFTC	Beginning Farmer Tax Credit
CAP	Common Agricultural Policy
CEJA	European Council of Young Farmers
CGT	Capital Gains Tax
EAFRD	European Agricultural Fund for Rural Development
ENRD	European Network for Rural Development
EU	European Union
FCC	Farm Credit Canada
FFF	Future Farmers Fund
FMD	Farm Management Deposit
FSA	Farm Service Agency
IADA	Iowa Agricultural Development Authority
LLP	Loan Participation Program
MASC	Manitoba Agricultural Services Corporation
OECD	Organisation for Economic Co-operation and Development
QRAA	Queensland Rural Adjustment Authority
UK	United Kingdom
USA	United States of America
USDA	United States Department of Agriculture
YESS	Young Entrants Support Scheme

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# Executive Summary

I chose to study Young Farmer Finance Schemes to assist the next generation of farmers to gain an asset in agriculture and be able to use finance as a tool to progress to a level of their choosing. There is a lot of discussion about the image of agriculture and how it can be improved. One of the ways this can be assisted is by providing a financial pathway for the next generation where as an industry there is support, encouragement and an understanding that there is a need to be more inclusive.

Agriculture has to be more creative and proactive in its approach to finance. Some of the best farmers I know have been successful in the dairy industry without relying on the support of a family farm to get them there. There is real value in having young people and new entrants from outside the industry come in with a fresh set of skills gained in different industries and seeing how they are implemented and applied in agriculture.

In Australia there is a need for a program that covers all of the states and territories equally.

I would like to see the formation of a “Future Farmers Fund” that provides a co financing loan at a concessional interest rate for farmers who qualify that provides extra security to gain bank finance.

## **Agricultures goal should be:**

1. That the next generation of farmers read this report and see that agriculture is a career where if you are prepared to work hard and gain the skills required while continuing to invest in your greatest asset, yourself, the rewards will be there.
2. The older generation of farmers read this report and consider what they have at stake if the next generation is not there when they are looking to retire, sell, identify a successor or employ labour.
3. That the banks and other financial institutions re-evaluate the risk profile and lending criteria of farmers starting out in agriculture.
4. State and Federal Government review what they can do to help the next generation of farmers regarding taxes and loan guarantees.
5. Industry groups and policy makers support the recommendations and lobby for actions, implementation and not more discussion.

# Introduction

Since moving back to the family dairy farm at Dumbalk North in May of 2000 finance has been the critical tool we have used to grow our net worth. We began working for wages and we now operate on a 50% share. The progression has been as follows:

1. We began by working for wages in the period from 2000 to 2004.
2. Between 2004 and 2006 we progressed to a 12.5% share of the milk cheque and purchased a motorbike and 18 cows.
3. Between 2006 and 2008 we progressed to a 34% share and purchased a second hand tractor, mower conditioner and rake.
4. In 2008 we moved to a 50% share and purchased half the cows and young stock.

We are currently in the next phase of our succession plan where we have applied for finance to purchase the farm. From the beginning of our dairying career we have used family loans, family equity incentive, equipment finance, housing finance, vendor terms, overdraft and leasing to build our net worth to a point where we could be considered for a loan to buy the farm.

During this time it has been easy to identify assets that have grown against the ones that have depreciated. When I review the assets relating to agriculture it was easy to get finance on the depreciating assets like machinery but when looking to purchase cows or land it required more of a deposit and security backing. In 2004 as part of my “Lead On” leadership course and the United Dairyfarmers of Victoria “Off Farm into the Future” program the study was on young farmer finance but concentrated on financing cows in the dairy industry. This study showed that the major lenders would only finance between 25% and 33% of the value of the cow but they would finance 80%-90% on new machinery.

For a person entering agriculture and wanting to progress the equity required can be quite daunting and intimidating. As part of my Nuffield scholarship the aim was to study what financial programs other countries have in place to assist people gain and increase their asset in agriculture.

When reading this report please keep in mind that the suggestion is not that everyone needs to own their own farm or other asset. This study is trying to find a way that agricultural finance provides **options and opportunity** for farmers to progress to a level of their choosing.

# Objectives

The objective of this report is to:

- Investigate Young Farmer Finance Schemes around the world.
- Identify the best finance programs, tax incentives and options for young farmers.
- Formulate a program that will work in every agricultural commodity throughout Australia.
- Instigate actions to support this program.

# The Average Age of Farmers

The average age of farmers is a headline figure but it does not tell the whole story. As outlined in the forward, the average age is predicted to peak and then decline slowly. This decline is not due to more young farmers entering agriculture but the large number of farmers over 65 that will be exiting the industry. For a more accurate and balanced measurement of the age of our farmer population we should use the ratio of farmers less than 35 years of age compared to farmers older than 55.

By using this comparison it will show if any assistance to young farmers is working because it can be assumed that most young farmers will be borrowing to grow.

**Figure 3.**

<b>Age structure in agriculture</b>			
Indicator	<b>Objective 5 - Age structure in agriculture</b>		
Measurement	Ratio: Farmers <35 y.o. / Farmers >55 y.o.	Farmers <35 y.o.	Farmers >55 y.o.
Source	Eurostat		
	Farm Structure Survey		
Year	2007		
Unit	ratio value		%
Country			
Belgium	0.13	5.9	44.1
Bulgaria	0.04	3.1	70.3
Czech Republic	0.21	9.8	46.4
Denmark	0.13	6.0	44.6
Germany	0.26	7.7	30.0
Estonia	0.10	5.6	57.3
Ireland	0.14	6.9	50.9
Greece	0.12	7.0	57.2
Spain	0.07	4.5	61.3
France	0.19	7.9	40.9
Italy	0.04	2.9	68.0
Cyprus	0.04	2.5	58.2
Latvia	0.14	7.2	49.9
Lithuania	0.07	4.2	58.6
Luxembourg	0.13	5.2	39.6
Hungary	0.14	7.6	54.9
Malta	0.07	4.2	57.5
Netherlands	0.09	3.9	44.5
Austria	0.34	9.7	28.7
Poland	0.35	12.3	35.4
Portugal	0.03	1.9	73.4
Romania	0.06	4.3	67.5
Slovenia	0.07	4.0	58.5
Slovakia	0.06	3.6	60.1
Finland	0.25	9.1	36.2
Sweden	0.11	5.5	51.5
United Kingdom	0.04	2.6	61.7
EU-27	0.11	6.1	56.8
EU-15	0.09	5.0	57.5
EU-12	0.12	6.9	56.3

Rural Development in the EU. (2011).

Figure 3 has been included in this report to show that the EU is measuring this ratio. Due to the EU having a diverse range of farm structures it is difficult to make direct comparisons between countries. Some of these reasons are due to difference in:

- The size of farms
- How much land is available for agricultural use
- Training and education standards in agriculture
- Population ratios
- The age of retirement
- The number of farmers with other gainful activities outside agriculture
- The economic development in the non-agriculture sector
- The use of installation aid or early retirement payments.

This table should be used to track changes in the ratio for individual countries so that any changes in policy or assistance can be measured.

# Definition of a Young Farmer

When you mention the term and consider what defines a “Young Farmer” everyone has a different impression or perception about what that means. For most of the schemes investigated there seemed to be an upper age cut off of 40 years. There needs to be clarification and one way to do this is to take the age focus out of the equation and move it to the type of finance the farmer is looking for.

One way of doing this is to talk about the progression in stages:

Stage1: This is where a person is looking to gain finance in an agricultural asset that is portable or short term like stock, equipment, crop inputs, land rental or short term lease. This is usually from a position of low equity and low net worth.

Stage 2: This is where a person is looking to gain finance in an agricultural asset that is fixed like land or long- term leases of buildings and infrastructure. Because the deposit and security on these larger capital items is much higher these people in the Stage 2 range may have progressed from Stage 1 or entered the industry with other capital.

To ensure that any assistance in Stage 2 was targeted correctly the Beginning Farmer Centre in Des Moines, Iowa, has developed some guidelines that could be adapted to ensure this scheme was not abused. It includes a net worth test and questions if the applicant has access to adequate working capital, equipment and other items necessary to operate the farm. It also requires that they must materially and substantially participate in the operation of the farm and assume financial risk.

# Young farmer finance schemes in Australia

Victoria has a Young Farmer Finance Scheme through Rural Finance that is available to people 40 years of age or under and provides three loan facilities with an interest rate concession.

They allow you to:

1. Purchase stock & equipment: These loans have a term of up to eight years with a 2% concession off Rural Finance's commercial interest rate for the first three years and then commercial rates apply for the rest of the loan term.
2. Purchase land: These loans have a term of 15 years with a 2% concession off Rural Finance's commercial interest rate for the first five years and then commercial rates apply for the rest of the loan.
3. One to grow. This loan is aimed at young farmers who are looking to purchase their first block of land as a first step towards owning and operating a commercial farm. These loans have a term of up to 12 years with a 1% discount off Rural Finance's commercial interest rate for five years and then commercial rates apply for the rest of the loan.

In the 2010/11 financial year loans and net approvals for the three loan facilities were 75 loans with a value of \$14,735,000.

Rural Finance, (2011).

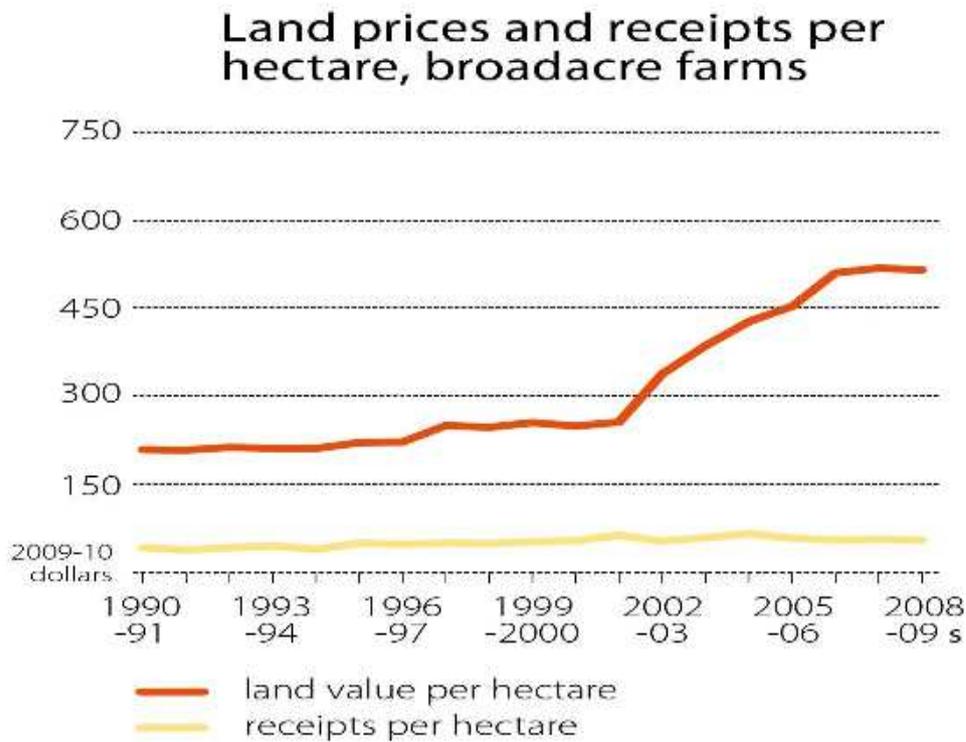
Queensland has First Start Loans administered by QRAA (Queensland Rural Adjustment Authority) which will loan up to \$650,000 over 20 years but will also consider joint lending options with other commercial lenders. There is no age requirement and interest rates are set at the lending rate of the Queensland Treasury Corporation plus one percent that can be fixed for one, three or five years. If the financial capacity to repay the loan improves QRAA may increase the interest rate during the term of the loan. In 2010/11 financial year loans for the First Start loan program totalled 43 loans with a value of \$15,090,619.

QRAA, (2011).

With Victoria and Queensland's young farmers having access to loans with interest rate concessions this leaves a large proportion of Australia's next generation of farmer totally exposed to the unpredictable nature of farming. This is an impediment to industry progression

that should be turned around to show with actions that young farmers are valued Australia-wide when they are looking to invest in agriculture.

**Figure 4. Land prices and farm incomes.**



ABARE, (2010).

In the text that accompanies Figure 4 it states that *“The ratio of average land price per hectare to total cash receipts per hectare has increased from around 5:1 prior to 2001-02 to around 7:1 in 2008-09 on broadacre farms. The increase in this ratio is relatively similar across all agricultural zones and industries.”*

Figure 4 shows that after 2001 agricultural land was used as an investment that would provide capital gain as well as an income. Because of this division between land value and receipts per hectare it will be difficult for young farmers to purchase land and make a profit. Everyone in the agricultural industry must work together to provide a career path that provides options and opportunities to progress using share farming, leasing, equity partnerships and joint ventures that may lead onto land purchase.

# Young Farmer Finance Schemes in the European Union

The study of young farmer finance schemes in the EU started by meeting with ENRD (European Network for Rural Development) and CEJA (European Council of Young Farmers) in Brussels. With the information gained on the different programs throughout the EU, Installation Aids for European Young Farmers (2008) study was undertaken in Ireland, UK, Netherlands and France. (Appendix 1) As you will see in the following paragraphs, there is a vast difference in the amount of money allocated for Installation Aid (measure 112) and how it is used to assist young farmers in each country. The EU also has a program to assist with Early Retirement (measure 113) that is outlined later in this chapter.

The European Agricultural Fund for Rural Development (EAFRD) finances the rural development programmes of the Member States in the European Union.

As part of the Common Agricultural Policy (C.A.P) under pillar 2 in axis 1 there is funding for measure 112 which is commonly called installation aid. Between 2007 and 2013 programmed expenditure is set at **5 billion Euros** with EAFRD contributing 2.89 billion Euros. There is also a further contribution of 2.22 billion Euros from the other member states that have signed up under this program. Malta, the Netherlands and Slovakia have not signed up to this program (ENRD 2010).

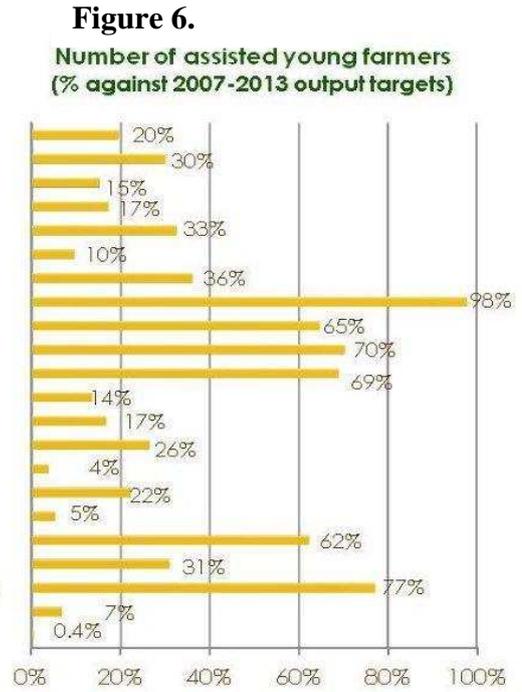
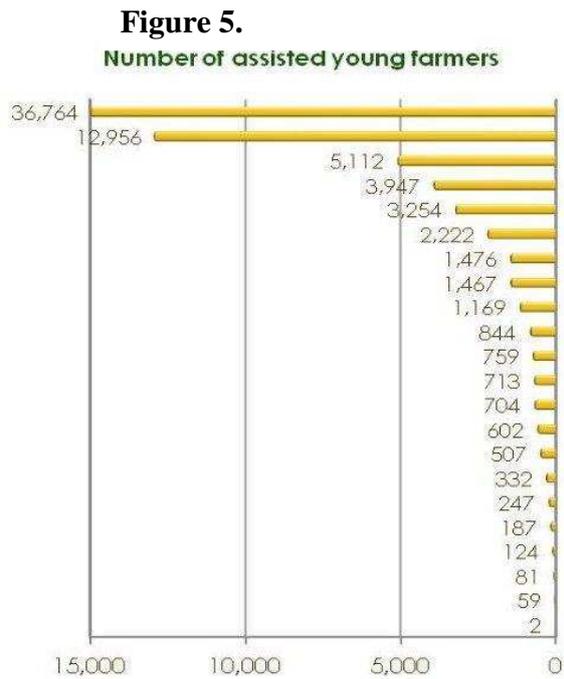
In order to qualify for Measure 112 farmers have to be:

- Less than 40 years of age.
- Set up for the first time an agricultural holding as the head of the holding.
- Possess adequate occupational skills and competence.
- Submit a business plan for the development of the farming activities.

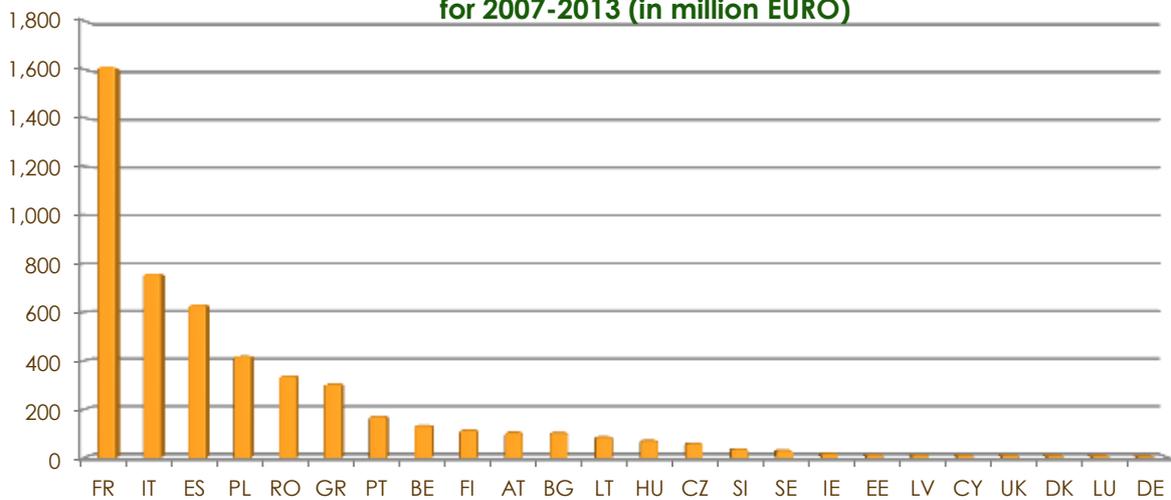
The maximum a farmer can receive under this program is 70,000 Euros but the average rate per beneficiary up to 2009 is estimated to be 17,000 Euro.

(CEJA, 2011).

In a review of the CAP post-2013 the European Council Of Young Farmers (CEJA) are lobbying for a proposal that the funding split between the EU and the member states change from the current 50/50 to an 80% EU/- 20% member country split to try and ensure that all member countries use this program to assist young farmers. Figure 6 below shows that some countries have a low percentage of young farmers assisted compared with their output targets because of financial strains on their economy.



**Figure 7. Programmed total public expenditure on measure 112 per MS for 2007-2013 (in million EURO)**



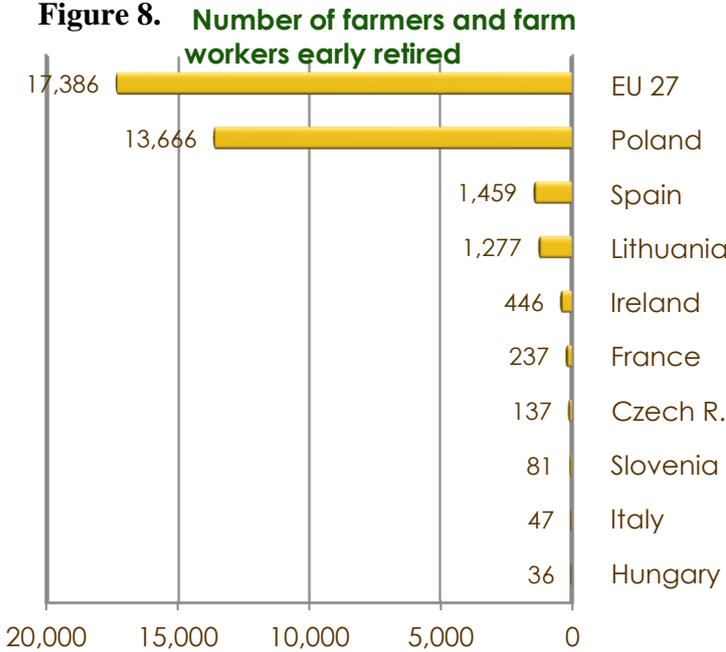
ENRD, (2010). Measure 112.

Also in the EU, under Axis 1, there is measure 113, which deals with the early retirement of farmers and farm workers. The programmed total expenditure for this measure between 2007-2013 is **4.1 billion Euros**. From 2007 to 2009 17,386 applicants received €106,265,200 which averages €6,112 per applicant.

These applicants are farmers and farm workers who have reached early retirement age who decide to stop their agricultural activity for the purpose of transferring the holdings to other farmers.

Figure 8 below shows that over 17,000 applicants have been assisted by this measure and this has released over 229,000 Ha of land in the EU.

By freeing up this land the EU hoped that it would provide opportunities for young farmers to get established. ENRD has conducted research to see if there is a direct link between young farmers applying for measure 112 and older farmers applying for measure 113 to see if it is assisting the generational change but up to 2009 only 5% of such applications were highlighted as being linked.



ENRD, (2011) Measure 113.

**France**

France is the biggest user of measure 112 with the total public expenditure between 2007 and 2013 budgeted to be **€1.6 billion** (Figure 7). Young farmers (under 40) can use this money as a lump sum or as a subsidised loan and can combine their money with other farmers in order to start an agricultural operation.

When land comes up for sale in some provinces of France it is the local government and a farmer board that decides who can buy the land and they also set the price. In most cases it is seen as an advantage to the agricultural environment to help install a young farmer on to the land instead of having neighbouring farms get bigger and bigger.

The government also assists young farmers with a reduction in taxes paid that is stepped up over five years, which helps cash flow through the start-up period. During a meeting with the organisation representing young farmers in France (Jeunes Agriculteurs), we discussed the measures of assistance given to young farmers in France and the question was asked “How do

you know these measures are helping young farmers get into agriculture?” The reply was 30% of farmers in France do not have a family link to agriculture and therefore have started their own operation.

The culture in France regarding agriculture has grown out of strong industry representation combined with the general population wanting to see agriculture preserved in its current form. People in France do not want to see their farmers forced down the path of expansion or more intensive production and at the moment they are prepared to pay for these measures in their taxes.

## **Ireland**

In Ireland, land availability was the biggest issue for young farmers trying to progress in agriculture. In the Irish Farmers Journal there is an article on land access by Pat O’Keeffe where it states *“Land is tightly held in Ireland, with less than 0.5% sold on the open market per year. Even if land is available, the prevailing price means that a young farmer could not purchase a viable unit without considerable third party assistance” (O’Keeffe 2012).*

There is a strong emotional tie to the farm as it has usually been in the family for generations and the thought of selling or giving up control through a lease is often seen as offensive. In a meeting with Ben Roche (a farm structures specialist with Teagasc at the Moorepark Research Farm near Fermoy, County Cork), he stated there were limited entry points to agriculture in Ireland because the price of land is high and farm size is small. Ben also made comment that in his view installation aid should be provided as an interest rate subsidy and not a direct payment.

Ireland is one of the EU countries that stopped providing installation aid under measure 112 because of economic pressure in meeting the co-finance contribution.

Agriculture in Ireland has a high reliance on direct payments from the EU. Subsidies comprised 73% of family farm income on all farms in 2011, a reduction from 97% in 2010 (Hennessy, Kinsella, Moran and Quinlan 2011).

The single farm payment is calculated on the amount of hectares farmed and has no relationship to profitability or productivity. This combined with the cost and availability of milk quota, has to be another factor contributing to the low rates of land mobility.

## United Kingdom

The National Federation of Young Farmers Clubs in Coventry introduced me to a program that was running in Wales called the Young Entrants Support Scheme or YESS.

The assistance package includes:

1. A one-off grant payment for eligible capital expenditure when a young entrant (under 40 ) is setting-up as head of holding for the first time or when the applicant has set-up as head of holding for the first time within the previous 12 months.
2. Access to funded mentoring services from established farmers and/or professionals.

To qualify applicants are required to submit a Business Development Plan, including details of the capital investment that the grant will support. It requires that:

- a. The holding must be viable or the applicant will be required to demonstrate in the Business Development Plan that the holding will become viable within 5 years after entry into the Scheme.
- b. The holding must comply with animal health and welfare legislation, Good Agricultural and Environmental Conditions and must be used for an agricultural purpose.
- c. This investment cannot cover the purchase, rent or lease of land, livestock, Single Payment Scheme entitlements or farm machinery to be used for contracting activities.

Financial assistance will take the form of a grant payment (made in arrears upon successful completion of an approved project) for an investment made in setting up as head of holding for the first time. The grant is for 50% of agreed eligible expenditure or maximum grant of £15,000.

(Young Entrants Support Scheme [YESS], Explanatory Booklet Wales, 2012).

The National Federation of Young Farmers Clubs is also working with Dr Steve Webster from Delta Innovation who is undertaking a feasibility study on starting a matching service. This service would look at ways of combining the assets and experience of existing farmers and the ideas and enthusiasm of younger entrants as a means to reinvigorate agricultural production in the UK.

# Young farmer finance schemes in America

## Canada

Canada provided this study with a broader perspective on finance to young farmers by including a number of different assistance measures. They included assistance to beginning farmers, loan guarantees, innovative lending products, interest rate protection and interest rate reduction for education and training. There was a noticeable difference in how young and beginning farmers were valued by the banks to the point where there was competition for their business.

Meetings were held with lenders that operate at provincial level and Canada wide.

In Alberta, Canada, the Agriculture Financial Services Corporation (AFSC) explained their program that does not take into account the age of the loan applicant but uses a net worth calculation to determine if the applicant qualifies for an interest rate concession. The Beginning Farmer Incentive offers an interest rate concession of 1.5% for the first five years of a loan and is available to any individual with a net worth of \$500,000 or less at the time of application. A couple applying jointly for the loan could receive the Beginning Farmer Incentive on loans up to \$1 million provided both have an individual net worth of \$500,000 or less at the time of application. Another feature of this loan program is that they can be prepaid or paid out in full at anytime without penalty or fees.

Manitoba Agricultural Services Corporation (MASC) has an interest rate rebate for farmers less than 39 years of age. The Young Farmer Rebate which is an annual rebate of 2% on the first \$150,000 of principal of a loan for each of the first 5 years which is \$3000 annually and \$15,000 total after 5 years. The applicant also has the choice of a 90% financing option that reduces the deposit required or five years of interest-only payments to assist with cash flow. These loans have a maximum limit of \$2 million.

MASC also have a Loan Guarantees program which encourages financing in areas that the private sector considers to be higher risk. Potential clients apply to the participating lender of their choice. If a lender indicates a guarantee is required, an application is then made to MASC. In most of these loans MASC provides a 25% guarantee of the principal amount of the loan.

As of March 31 2011 MASC had 567 outstanding guarantees amounting to \$90.6 million which facilitated loans from other lenders of \$329.3 million (MASC, 2011).

Farm Credit Canada (FCC) has a Young Farmer Loan where if you are under 40 you may qualify for a loan of up to \$500,000 at a variable interest rate of cost of funds plus 0.5%.

They also have a Transition Loan where FCC guarantees the seller of the property gets the proceeds from the sale of the farm directly from FCC over five years which can help reduce capital gains tax for the seller. The buyer financed by FCC does not need a down payment and only pays principal and interest or interest only on the balance that has been paid to the seller. The structure of this program provides a great benefit to either the cash flow or the equity of the purchaser as outlined in the tables below.

**Figure 9.** Farm Credit Canada Transition Loan

<b>Goal: Build equity</b>		
	<b>Transition Loan</b>	<b>Standard Loan</b>
Loan amount	\$500,000	\$500,000
Interest rate	6.0%	6.0%
Disbursement Year 1	\$100,000	\$500,000
Disbursement Year 2	\$100,000	-
Disbursement Year 3	\$100,000	-
Disbursement Year 4	\$100,000	-
Disbursement Year 5	\$100,000	-
Payment (monthly)	\$3,561	\$3,561
Amortization (years)	16.33	20
Interest saved	\$158,505	\$0.00
<b>Goal: Improve cash flow</b>		
	<b>Transition Loan</b>	<b>Standard Loan</b>
Loan amount	\$500,000	\$500,000
Interest rate	6.0%	6.0%
Disbursement Year 1	\$100,000	\$500,000
Disbursement Year 2	\$100,000	-
Disbursement Year 3	\$100,000	-
Disbursement Year 4	\$100,000	-
Disbursement Year 5	\$100,000	-
Amortization (years)	20	20
Payments in Year 1 (monthly)	\$1,457	\$3,561
Payments in Year 2 (monthly)	\$1,951	\$3,561
Payments in Year 3 (monthly)	\$2,445	\$3,561
Payments in Year 4 (monthly)	\$2,939	\$3,561
Payments in Year 5 (monthly)	\$3,433	\$3,561
Cash flow in first 5 years	\$65,424	\$0.00

Farm Credit Canada Transition Loan, (2012).

**Performer Loan**

This loan lowers the interest rate when pre-determined goals are achieved. At the outset of the loan, a performance plan is developed with FCC and then your interest rate will decrease when these goals are reached.

For example:

- A proven repayment track record.
- Enhanced current or working capital ratios – the cash and inventories increase relative to the short-term liabilities.
- Improved debt-to-equity from paying down debt or increasing the amount invested in the business.

Over the last four years FCC has loaned over CAN\$ 5 billion dollars to young farmers. (Farm Credit Canada Generation Ag Brochure, 2012).

La Financiere agricole in Quebec Canada administer a support measure called the Establishment Grant. The grant is valued at \$10,000 to \$40,000 (depending on training and education level) to young people (over 18 under 40) seeking to start up or join a farm operation. They also have a start up grant valued at \$10,000 that helps support the start up, expansion or diversification for part time farmers. One of the advantages of both of these grants is that they can be used to pay off interest on a loan guaranteed by La Financiere agricole du Quebec.

As part of their funding programs La Financiere agricole offer a Secure Rate Establishment Loan which ensures financial stability by protecting the loan against interest rate increases. Under this program the interest rate is capped on the first \$500,000 borrowed. This farmer will be reimbursed all of the interest above five, six or seven percent, based on the level of training and education.

## **USA**

Young farmers in the USA have access to funding through a number of channels. If a young or beginning farmer does not qualify for a loan with a commercial bank then they can apply to Farm Credit. If they do not qualify at Farm Credit then they can apply for a loan from the Farm Service Agency which is a department within the United States Department of Agriculture. There are also organisations like Iowa Agricultural Development Authority (IADA) that have lending products and administer tax credits as a form of assisting young farmers.

### ***United State Department of Agriculture (USDA) Farm Service Agency (FSA)***

FSA is referred to as the “Lender of First Opportunity” because each year it targets some of the direct and guaranteed loan funds for beginning and socially disadvantaged farmers. FSA sets aside money specifically to help farmers who are just starting up, or who are members of a group which has been subjected to racial, ethnic, or gender prejudice because of their identity, without regard to their individual qualities. In addition, land contract guarantees are only available on land contracts to a beginning or socially disadvantaged farmer.

A farmer who is unable to obtain credit elsewhere to start, purchase, sustain, or expand the farm can apply for a loan from the USDA FSA. Unlike loans from a commercial lender, FSA loans are temporary in nature and the goal is to help farmers graduate to commercial credit.

### ***Guaranteed Loan Program***

Guaranteed loans are made and serviced by commercial lenders, such as banks, the Farm Credit System, or credit unions. FSA guarantees the lender’s loan against loss, up to 95 percent. FSA has the responsibility of approving all eligible loan guarantees and providing oversight of the lender’s activities.

### ***Direct Loan Program***

Direct loans are made and serviced by FSA using Government money. FSA has the responsibility of providing credit counselling and supervision to its direct borrowers by helping applicants evaluate the adequacy of their real estate and facilities, machinery and equipment, financial and production management, and goals.

### ***Land Contract Guarantee Program***

Land contract guarantees are available to the owner of a farm or ranch who wishes to sell real estate through a land contract to a beginning or socially disadvantaged farmer. The seller can choose either a

- Prompt Payment Guarantee: a guarantee up to the amount of three annual instalments plus the cost of any related real estate taxes and insurance.
- Standard Guarantee: a guarantee of 90 percent of the outstanding principal balance under the contract.

**Figure 12. Farm Loan Programs Information Chart**

<b>Type of Loan</b>	<b>Maximum Loan Amount</b>	<b>Rates and Terms</b>
Direct Farm Ownership	\$300,000	<ul style="list-style-type: none"> <li>• Term: Up to 40 years</li> <li>• Interest rate: fixed**</li> </ul>
Direct Down Payment	The lowest of the following: <ul style="list-style-type: none"> <li>• 45% of the farm or ranch purchase price</li> <li>• 45% of the appraised value</li> <li>• \$225,000</li> </ul>	<ul style="list-style-type: none"> <li>• Term: Up to 20 years</li> <li>• Interest rate: fixed**</li> </ul>
Direct Operating	\$300,000	<ul style="list-style-type: none"> <li>• Term: 1 to 7 years</li> <li>• Interest rate: fixed**</li> </ul>
Direct Emergency	The lowest of the following: <ul style="list-style-type: none"> <li>• 100% actual or physical losses</li> <li>• \$500,000</li> </ul>	<ul style="list-style-type: none"> <li>• Term: 1 to 7 years (possibly up to 20 years) for non-real estate purposes</li> <li>• Up to 40 years for physical losses on real estate</li> <li>• Interest rate: fixed**</li> </ul>
Guaranteed Farm Ownership	The maximum loan amount is adjusted annually for inflation*	<ul style="list-style-type: none"> <li>• Term: Up to 40 years</li> <li>• The interest rate is negotiated by you and your lender.</li> </ul>
Guaranteed Operating	The maximum loan amount is adjusted annually for inflation*	<ul style="list-style-type: none"> <li>• Term: 1 to 7 years</li> <li>• The interest rate is negotiated by you and your lender.</li> </ul>
Guaranteed Conservation	The maximum loan amount is adjusted annually for inflation*	<ul style="list-style-type: none"> <li>• Term: Up to 20 years</li> <li>• The interest rate is negotiated by you and your lender.</li> </ul>

### Farm Loan Programs Information Chart *Continued*

Type of Loan	Maximum Loan Amount	Rates and Terms
Land Contract Guarantee	A maximum purchase price of \$500,000 on a new land contract	<ul style="list-style-type: none"> <li>• Term: Contract payments must be amortized for a minimum of 20 years with equal payments during the term of the guarantee. The guarantee period is 10 years.</li> <li>• Interest rates must be fixed and cannot exceed the direct farm ownership interest rate plus 3 percentage points.</li> </ul>

\*To determine the maximum loan limit for the current year, please check with your local FSA loan officer at <http://offices.sc.egov.usda.gov/locator/app> or our website at [http://www.fsa.usda.gov/Internet/FSA\\_File/guaranteed\\_farm\\_loans.pdf](http://www.fsa.usda.gov/Internet/FSA_File/guaranteed_farm_loans.pdf).

\*\*Direct loan interest rates are adjusted monthly and are posted online at <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=gfmlp&topic=fir> and at your local FSA office. Once your loan is closed, the interest rate is fixed at the rate in effect on the date of loan approval or loan closing, whichever is lower.

USDA FSA, (2012)

#### ***Iowa Agricultural Development Authority (IADA)***

The three programs available through the IADA are the Beginning Farmer Loan Program (BFLP), the Loan Participation Program (LPP), and the Beginning Farmer Tax Credit Program (BFTC).

The Iowa Beginning Farmer Loan Program (BFLP) was established in 1981 to assist new farmers in acquiring agricultural property. Beginning Farmer Loans are financed by participating lenders or contract sellers with the issuance of federal tax-exempt bonds offered by the IADA. Interest received on contract sales or direct loans by individuals is also exempt from state income taxes. The tax-exempt interest income earned by lenders and contract sellers enables them to charge the beginning farmers a lower interest rate.

Farmers who meet the qualifications for both the Loan Participation Program and the IADA Beginning Farmer Loan Program can participate in both programs simultaneously.

Figure 13.

**Comparison of IADA Loan Programs**

	<b>Beginning Farmer Loan Program – BFLP</b>	<b>Loan Participation Program - LPP</b>
<b>Age</b>	At least 18 years old No upper age limit	At least 18 years old No upper age limit
<b>Eligible projects</b>	Breeding livestock, machinery, land, farm improvements	Breeding livestock, machinery, land, farm improvements
<b>Lender's Certification</b>	None	Certify that no other private or state credit can be obtained; FSA does not need to certify denial
<b>Land ownership</b>	Cannot own substantial farmland (30% of county median acres)	No restrictions
<b>Buy from close relatives</b>	Yes	Yes
<b>Minimum loan</b>	None	None
<b>Maximum loan</b>	\$501,100 – Federal Bond \$500,000—State Bond	30% purchase price or \$150,000 participation loan
<b>Maximum net worth</b>	\$691,172	\$400,000
<b>Maximum debt before closing</b>	N/A	\$400,000
<b>Application fee</b>	\$50	\$100
<b>Closing fee</b>	1.50% of IADA <b>Bond</b> to \$250,000 0.75% of the <b>Bond</b> over \$250,000 \$300 minimum	1.25% of IADA <b>participation loan</b> \$300 minimum
<b>Current ratio</b>	N/A	Greater than 1.1
<b>Debt to asset ratio</b>	N/A	Cannot exceed 80% without guaranteed source of repayment
<b>Loan to net worth ratio</b>	N/A	Cannot exceed 300% without guaranteed source of repayment
<b>Off-farm income</b>	No restrictions	Cannot exceed 50% of projected total of gross income
<b>Corporation, Partnerships, LLC's eligibility</b>	No	Yes

IADA (2012)

**Farm Credit**

Farm Credit is a nationwide network of cooperative lending institutions and specialized service organizations. Established by Congress in 1916 the system is the oldest of the Government-sponsored enterprises. Throughout its history, the fundamental purpose of the system has remained the same: To provide American agriculture with sound and dependable credit at competitive interest rates. Currently, there are three Farm Credit Banks and one Agricultural Credit Bank providing funds and support services to approximately 88 locally owned Farm Credit Associations and numerous cooperatives nationwide.

The Farm Credit Council defines young farmers as 35 years of age or younger. In 2011, Farm Credit made 52,800 loans totalling US \$7.464 billion to young borrowers.

Beginning farmers are defined as those having 10 years or less of experience. In 2011, Farm

Credit made 61,995 loans totalling US \$9.634 billion to beginning farmers.

Farm Credit Council, (2011).

There is also a small farmer loan and to qualify gross annual farm sales have to be \$250,000 or less.

Farm Credit is financed by the Federal Farm Credit Bank Funding Corporation selling notes and bonds in the U.S and international money markets.

**Figure 10.**

**FARM CREDIT SYSTEM FLOW OF FUNDS**



**Farm Credit Armenia**

When the Armenian Government was looking for a finance model for their agricultural industry they chose to duplicate the Farm Credit model. This is a great example of not reinventing the wheel. They were assisted by the Farm Credit Authority and the USDA and have just celebrated their 5th anniversary and have about 2000 members contributing to the growth of the Armenian economy.

Figure 11. Farm Credit Armenia webpage.



# The effect of taxation on young farmer finance schemes

*“Farmers in Iowa would rather die than pay taxes. And they do!”*  
John Baker Attorney at Law Beginning Farmer Centre Iowa U.S.A

From the start of this study it was clear that the more information gained about young farmer finance the more there was to learn about taxation and how that affected succession plans, industry exit rates and young farmer’s cash flow. When a proactive finance program and tax incentives come together, they form a very powerful tool in helping the next generation get started and succeed in agriculture.

There are some programs around the world that are currently working and assisting with generational change that are having a positive impact and the outline of these programs follows.

## **USA**

To make lending to young farmers more attractive commercial banks are able to access tax incentives from the Government on any money loaned out to young farmers usually in a co-financing arrangement with the USDA FSA.

In Iowa they have a Beginning Farmer Tax Credit Program administered by the Iowa Agricultural Development Authority. The tax credit is designed to encourage owners of capital agricultural assets to lease them to a beginning farmer. Farmers gain a state tax credit if they lease their land, depreciable machinery, equipment, breeding livestock or buildings to a beginning farmer. This program can be used for agreements between parents, grandparents and siblings. The tax credit is 5% of the rental income if it is a cash lease, if it is a share cropping agreement it can be 15% of the value of the owner’s share of the crop. These percentages have been formulated to make it more attractive for a share cropping agreement as this lessens the beginning farmer’s exposure to risk.

To qualify as a beginning farmer under this system you must:

- Be a resident of the state of Iowa.
- Possess a net worth of less than \$343,000 (Adjusted annually on 1st January).
- Have sufficient education, training or experience in farming.

- Have access to adequate working capital, equipment and other items that are necessary to operate the farm.
- Must materially and substantially participate in the operation of the farm and assume financial risk.

The Iowa Agricultural Development Authority provides the following example of the benefits offered under this scheme.

1. Calculations on a Cash Rent Basis:

150 acres of crop ground  
 \$150 per acre  
 \$22,500 gross lease income  
 $22,500 \times 5\% = \$1,125$   
 Tax credit issued is equal to \$7.50 per acre

2. Crop Share Lease Agreement:

150 acres of crop ground  
 50/50 crop share lease  
 175 bushels per acre yield  
 26,250 total bushels (13,125 bushel owner share)  
 $13,125 \times \$3.00 \text{ per bushel} = \$39,375$   
 $39,375 \times 15\% = \$5,906.25$   
 Tax credit issued is equal to \$39.38 per acre.

IADA (2012).

***Ireland***

In a meeting with Aisling Meehan (2011 Nuffield Scholar from Ireland) who is an agricultural lawyer and tax consultant, it was clear that the Irish tax system had changed and adapted to try and assist with generational change in the following ways.

Retirement Relief is a program where, if the selling farmer has owned and farmed the land that is to be sold for 10 years prior to the transfer and is 55 years of age or over, then there is no capital gains tax on the first 750,000 Euro where the transfer is to someone other than a child. Currently there is no cap on the availability of Retirement Relief for transfers of a farm within a family. So if you are 55 years of age or over and your land has been owned and farmed by you for 10 years prior to the transfer to one of your children there is no capital gains tax payable. For transfers after 31 December 2013, where the market value of the land being transferred exceeds €3,000,000 on the date of the transfer, the relief will be restricted to that which would apply as if the market value was in fact €3,000,000 on the date of the transfer.

Stamp duty was 6% on land but has been reduced to 2% from 7<sup>th</sup> December 2011. A special relief applies until 31 December 2014 to transfers of agricultural property between relatives to reduce the stamp duty rate by 50% so that stamp duty on land transferred from a parent to a child is 1% rather than 2%.

Young Trained Farmer Relief is a program which provides total relief from stamp duty for farmers under 35 years of age, who have completed 180 hours of agricultural training or the equivalent and undertake to farm the land for five years from the date of transfer.

### ***Australia***

In Australia there needs to be a review of the agricultural tax system to highlight and modify any areas that are hindering generational change or entry rates into agriculture. With most of Australia's commodities traded on the international market Australian farmers are at a disadvantage when competing against countries that have subsidies, crop insurance, young farmer finance schemes and progressive tax systems. The flow-on effects from a vibrant industry can have a direct impact on the social fibre of country towns through economic benefits, employment and provide food security for all Australians.

## Australian Farm Management Deposits

During my study meetings there was a lot of interest when I explained the way farmers use Farm Management Deposits (FMD's) and how it is only available to the agriculture industry. As you can see from the chart below in July 2012 there was over \$3.1 billion invested in FMD's and this will form a key part of my proposal later in this report.

**Figure 14. Australian farm management deposits.**

  
Australian Government  
Department of Agriculture,  
Fisheries and Forestry

FARM MANAGEMENT DEPOSITS SCHEME STATISTICS – JULY 2012																
Industry Description	NSW		VIC		QLD		SA		WA		TAS		NT & ACT		INDUSTRY TOTAL	
	No. of FMD Accounts	Value of Deposits (\$'000)	No. of FMD Accounts	Value of Deposits (\$'000)	No. of FMD Accounts	Value of Deposits (\$'000)	No. of FMD Accounts	Value of Deposits (\$'000)	No. of FMD Accounts	Value of Deposits (\$'000)	No. of FMD Accounts	Value of Deposits (\$'000)	No. of FMD Accounts	Value of Deposits (\$'000)	No. of FMD Accounts	Value of Deposits (\$'000)
HORTICULTURE	990	79,231	1,091	99,972	1,061	103,024	866	73,211	277	33,564	161	13,349	6	533	4,452	402,884
SUGAR	96	4,513	*	115	1,393	102,767	*	30	0	0	0	0	0	0	1,489	107,425
CROPS	441	28,916	257	12,277	340	27,778	214	9,731	66	4,786	50	3,039	**	0	1,368	86,527
GRAIN	1,391	102,764	1,465	90,051	662	56,489	2,399	206,293	878	106,804	24	1,407	**	412	6,819	564,220
GRAIN-SHEEP/BEEF	3,074	190,510	2,491	150,959	764	53,952	1,988	153,755	1,148	145,766	45	4,895	7	1,555	9,517	701,392
BEEF	1,591	84,655	1,165	60,580	2,614	226,126	254	15,945	264	21,174	176	11,057	16	1,178	6,080	420,715
SHEEP-BEEF	1,446	83,115	927	49,334	452	35,401	525	38,040	169	13,032	137	7,533	6	195	3,662	226,650
SHEEP	1,147	60,536	1,078	61,228	125	9,540	529	31,762	247	17,209	103	6,645	**	86	3,229	187,006
PIG	39	2,711	22	2,087	58	5,907	38	3,348	10	525	***	203	0	0	167	14,781
INTENSIVE LIVESTOCK	488	29,847	359	22,602	349	29,137	176	11,405	84	4,732	22	957	**	83	1,478	98,763
DAIRY	411	27,580	2,458	157,746	364	23,250	158	14,173	73	6,410	143	9,713	0	0	3,607	238,872
FORESTRY & FISHING	426	22,118	345	21,472	421	28,668	209	14,307	170	15,080	49	2,710	0	0	1,620	104,355
OTHER	****	50	6	150	12	260	7	375	0	0	0	0	0	0	25	835
<sup>#</sup> State/Territory Total	11,540	716,546	11,664	728,573	8,615	702,299	7,363	572,375	3,386	369,082	910	61,508	35	4,042	43,513	3,154,425
<sup>#</sup> Adjusted Total															38,984	3,154,429

<sup>#</sup> Note: The *State/Territory* and *Industry* total includes 'double-counting' of FMD holders with more than one account against different industries but with the same financial institution.

The *Adjusted Total* of FMD accounts listed from December 2011 onwards overstates the number of primary producers holding FMDs. This is because primary producers that hold FMDs with more than one financial institution will be reported as more than one account. The monetary difference is due to rounding.

Certain figures are aggregated to protect the confidentiality of individual FMD accounts as detailed below:

- \* Victorian and South Australian sugar industry FMD accounts have been aggregated with the respective New South Wales FMD accounts.
- \*\* Northern Territory and Australian Capital Territory crops, grain, sheep and intensive livestock industry FMD accounts have been aggregated with the respective New South Wales FMD accounts.
- \*\*\* Tasmanian pig industry FMD accounts have been aggregated with the respective New South Wales FMD accounts.
- \*\*\*\* New South Wales other industry FMD accounts have been aggregated with the respective Queensland FMD accounts.

DAFF. (2012).

# Financial risk and loans to young farmers

There is a perception in the banking industry that lending to young farmers is high risk because they come from a position of low capital and collateral. During my study tour lending institutions were asked about default rates of loans to young farmers and the results were surprising. Although some lenders were unwilling to disclose figures, in Iowa the USDA FSA figures on their guaranteed farm loan programs for beginning farmers show that only 0.24% of the loans were delinquent or 0.01% of the value of the portfolio. For the Direct Loan portfolio only 0.69% of the value of the loans was delinquent as at June 2012.

Steve Ferguson Executive Director Iowa Ag Development Authority indicated that under 1% of their loans to young farmers were delinquent.

In discussions with Rural Finance (in the state of Victoria, Australia) they indicated that in 13 years they have made over 1,900 loans to young farmers and while they have had to restructure and moved to interest-only loans for a period of time they had not had a single loan default.

It is important that more research is done on this issue because if it is just a perception and not reality then this needs to be highlighted so that commercial banks in Australia are more inclined to participate in young farmer finance which should lead to more competition and options for young farmers.

## Stability in Finance

It is imperative young farmers have a stable finance market to make the most of the opportunities that present themselves in agriculture.

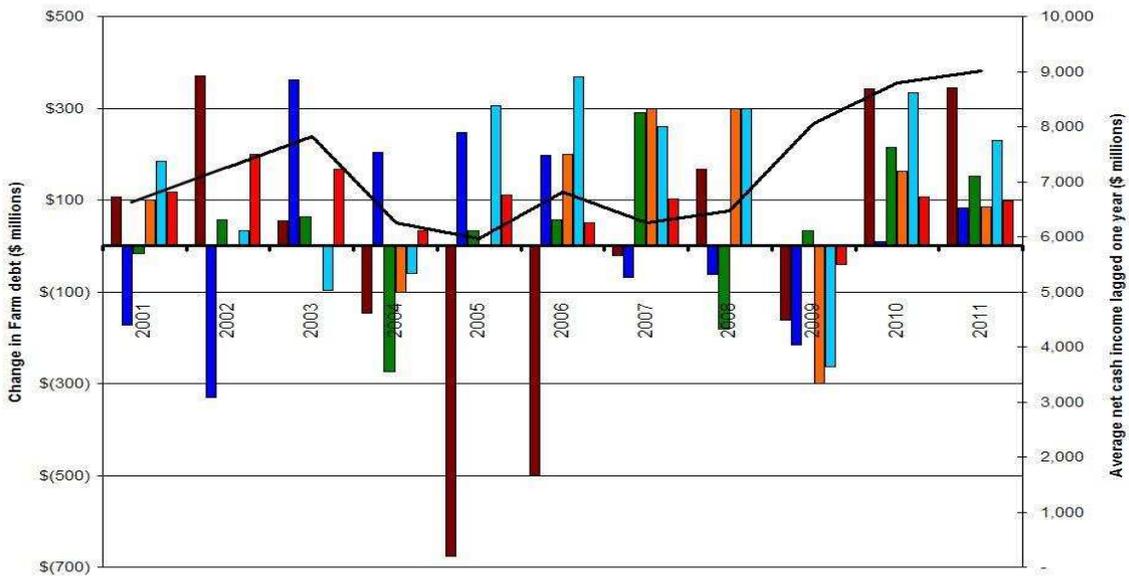
One of the unexpected outcomes of the study was how funding models dedicated to agriculture and specific loan programs can stabilize the agricultural finance market. Because commercial banks are driven by profits and return to shareholders the cyclic nature of agriculture means that they can vary in their enthusiasm when looking to finance farmers depending on the returns.

For a young farmer with a long term future in agriculture the most appropriate time to invest in land for example may be near the bottom of the market when land prices are depressed. This is also when it is the hardest to gain finance and show a positive business plan, based on the idea that, when the cycle starts to move up and land prices rise, the asset is appreciating and increasing the net worth. If a farmer buys at the top of the market and land prices start to fall the asset is depreciating and reducing this net worth, forcing a young farmer to wait until the cycle turns up again for any gains. The proposal at the end of this report is designed to help this situation.

In figure 15 below from Farm Credit Canada (2012) it shows the volatility in the estimated annual change of the chartered banks farm debt against the average net cash income. In 2004 you can see four of the six banks' portfolios shrinking at the same time that receipts were decreasing.

The interesting part is that during this same time frame Farm Credit Canada's investment in agriculture grew every year.

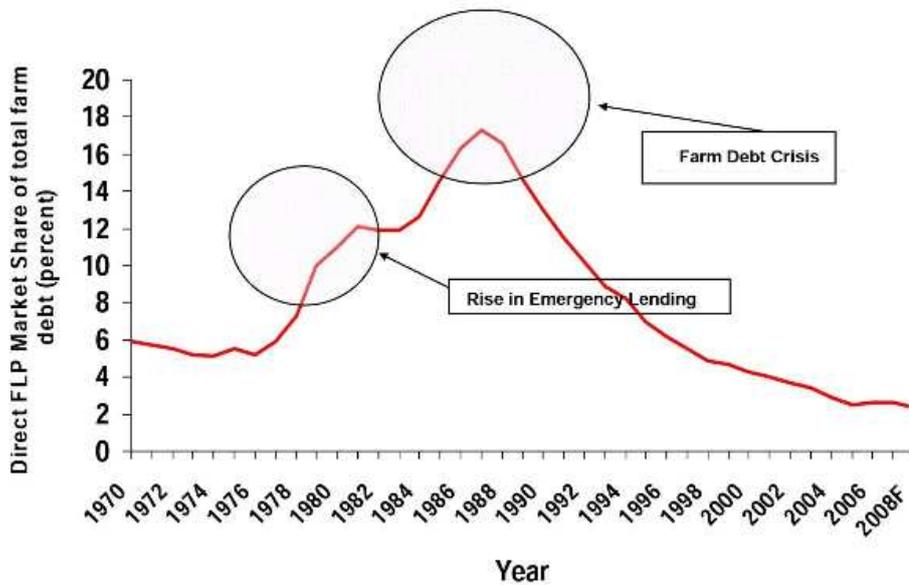
**Figure 15. Chartered banks annual change in farm debt versus average net farm income (Canada)**



Farm Credit Canada,

**Figure 16.**

**FSA Direct Loan Programs Have Been Used to Assist Farmers During Periods of Farm Financial Stress**



USDA FSA, Beyerhelm (2009)

The graph above shows how the FSA stepped in and absorbed some of the shock by increasing their market share of total farm debt, even during the farm crisis during the late 1980's.

# Proposed funding model for Australia

*“I reject your reality and substitute my own”*

Adam Savage, Mythbuster

The challenge with this study topic was always going to be formulating a finance model that would work in each state and territory within Australia. The model would provide co-financing with a bank for Stage 1 & 2 farmers who qualify for a loan program that provides an interest rate concession and requires less of a deposit.

This proposed Australian model has a focus on Farmers Helping Farmers.

The role of this fund would be to co-finance Stage 1 and Stage 2 farmers who have a suitable business and training plan. An example of this would be a Stage 1 or 2 farmer goes to a bank seeking finance but does not meet the security requirements. The bank would then have the option to apply to the Future Farmers Fund (FFF) on behalf of the stage farmer for additional security. The bank would have first mortgage and the FFF would take a second mortgage over the asset.

## ***Fund Financing***

This Future Farmers Fund could be financed in two ways. There would need to be a change to Farm Management Deposits (FMD), so that the farmer who commits money into a FMD can nominate that part of that money can go to the FFF fund, and be used to assist Stage 1 & 2 farmers. The FMD fund, as of July 2012, had over \$3.1 billion dollars invested, so if only 1% of this was directed at the future farmers fund it would release \$31 million dollars for investment in the FFF.

Both of these funding sources would have to have a Government Guarantee covering the money invested in the FFF as well as tax benefits. The tax benefits are needed so that the FFF has the ability to lend to Stage 1 & 2 farmers at a concessional interest rate. For example when a farmer is looking at options for investing the proceeds of a farm sale to minimise tax then they have the options of paying the tax, investing in super or reinvesting in another agricultural asset. The FFF would have to be competitive with the return from the superannuation payment as a whole, but be made up of two components. If conservative superannuation was returning 5% then the future farmers fund might return 3.5% but

combined with tax incentives on the money invested this would aim to come close to matching the 5% from superannuation. In the same way the FMD has a maximum investment per person, this would also apply to this fund.

### ***Fund Control and Administration***

This FFF fund would be controlled by a board that is made up of a combination of established and Stage 1 and 2 farmers, the banking industry, economists and farmer organisations. With the banks involved during the application for finance from the FFF this should minimise administration costs so every advantage can be passed on without the need for excessive fees or loading of interest rates.

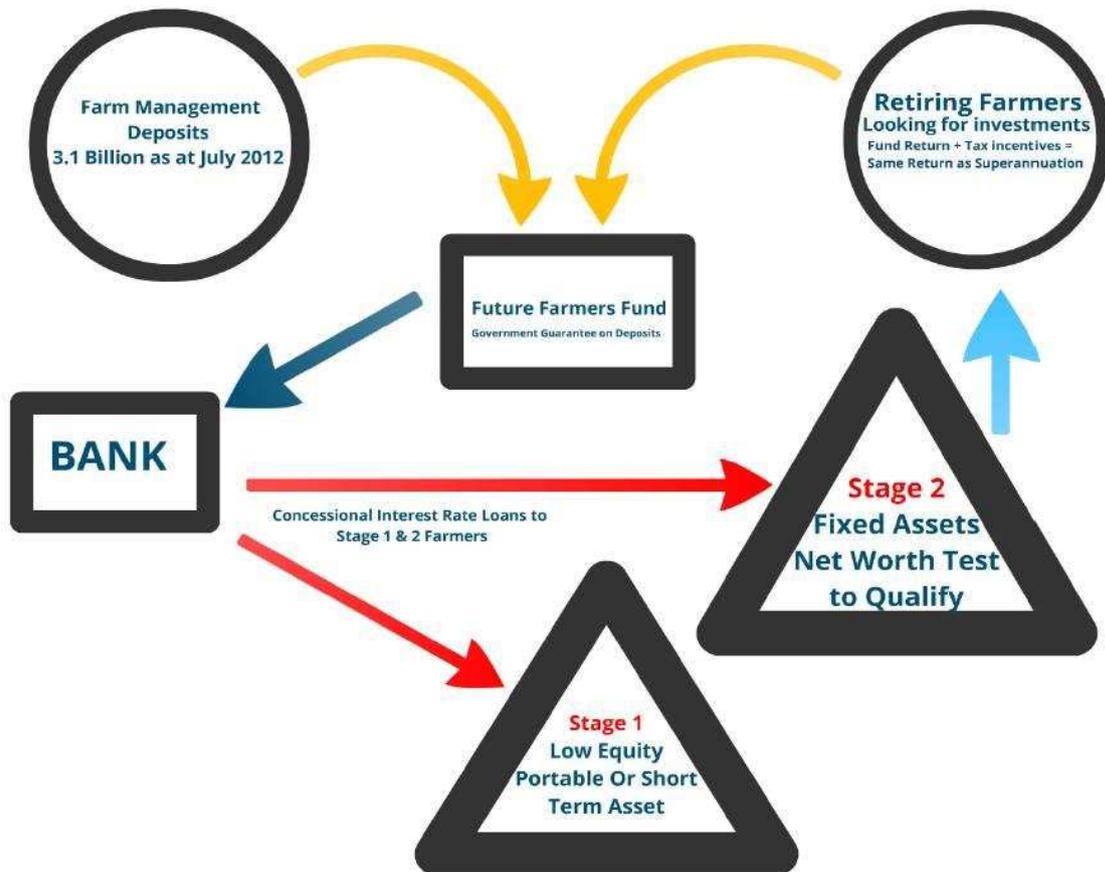
The fund would lend to farmers on a cost of finance plus a reduced risk margin. The margin would depend on the level of risk, skill and experience of the farmer and last for five years.

A key component of this cost plus model would be an incentive via an interest rate reduction to reward skills and knowledge gained prior to the loan and for continued training and upskilling during the loan. It would be expected that a component of this would be financial management and strategic business planning. This would provide benefits to our industry by encouraging and rewarding farmers who are prepared to invest in themselves and help to ensure that the next generation of farmers have the skills and ability to succeed in agriculture in Australia.

### ***Pilot Program***

To test this funding model a pilot program should be set up in Victoria with Rural Finance operating the FFF. This would then allow for an implementation, assessment and review in a real world situation.

**Figure 17. Future Farmer Fund Proposed Model.**



### ***The Future***

Looking at agriculture around the world has highlighted the need to implement change to formulate a controlled and measured program to help with generational change. This proposed funding model is a combination of the most innovative, functional and effective programs found in the world. They are tried and tested which lessens the risk and should accelerate the implementation to help solve the issue of our ageing farmer population.

The economics of farming will always provide a challenge to farmers who are looking to grow their asset, but it is reasonable that we, as a nation, need to make the most of the entrepreneurial spirit that the next generation of farmers will bring to agriculture and provide the options and opportunities they need and desire to be successful.

# Recommendations

Australia should implement a new co-financing model to assist young and beginning farmers into the industry. This implementation would involve the following steps:

1. Australian authorities should undertake economic modeling of proposed fund.
2. There needs to be a review of taxation laws to ensure it is assisting generational change and is not being an impediment.
3. Change the definition of young and beginning farmers to Stage 1 and Stage 2 farmers.
4. The goal of these recommendations would be to lift the proportion of farmers who are younger than 35 years of age. This change should re-invigorate Australian agriculture, making it more dynamic and competitive into the future.

# Appendices

Appendix 1, Installation Aids for European Young Farmers 2008.



**CONSEIL EUROPEEN DES JEUNES AGRICULTEURS**

European Council of Young Farmers - Europäischer Rat der Junglandwirte

Ref : CEJA-N-009-2008-EN  
03.10.2008

## - Installation aids for European Young Farmers -

COUNTRY	TYPE OF AID (art. 8.2)	10 % HIGHER SUPPORT FOR YF FOR INVESTMENT IN AGRICULTURAL HOLDING (art. 7)
<b>Belgium</b> <b>Wallonie</b>	<p>- EUR 100.000 investment: A single premium of 45% investment.</p> <p>- EUR 100.001 to 175.000 investment An interest subsidy covers 5% of the interests on the loan the YF has taken, it goes up to a max of EUR 10.000. Min 1% of the interest is in charge of the YF.</p>	<p>Yes, - 10% of investments for YF less than 6 years old set up. Aid can not exceed the amount of EUR 100.000. For YF less than 6 years old set up, aid can not exceed the amount of EUR YF 150.000</p>
<b>Belgium</b> <b>Flanders</b>	<p>There is still no higher support for YF in investment in agriculture holding. A <b>single premium</b> of max EUR 25 000 is paid over the first two years after setting up the farm. An <b>interest subsidy</b> of max EUR 30 000 covers 4% of the interests during 10 years. The above mentioned subsidies can be less because of an obligatory guaranty asked by the bank to the farmer who get this guaranty from the government for max EUR 25 000 euro. Max total aid is EUR 55,000</p>	No.
<b>Denmark</b>	<p><b>There are no direct installation aid.</b> young farmers can <b>loan</b> 20 percent (from 70% to 90% ) (maximum EUR 520.000) of the price of the farm with a State guarantee. The first <b>70 percent</b> of the price are no problem, and can always be loaned. The last 10% is the young farmers savings and bank-loan.</p>	No.
<b>Germany</b>	<p>A <b>single premium</b> of EUR 10,000 if the young farmer invests at least EUR 50,000. This amount of aid differs between the federal states of Germany, e.g. Rheinland-Pfalz doubles this amount out of its own resources.</p>	No.
<b>Greece</b>	A <b>single premium</b> :	55% of the whole investment but

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	<ul style="list-style-type: none"> <li>• Mountainous area: EUR 25,000</li> <li>• Disadvantageous area: EUR 20,000</li> <li>• Flat land: EUR 15,000</li> </ul>	it can not exceed the amount of EUR 225,000 per farm.
<b>Hungaria</b>	<p>The <b>single premium</b> depends on the size of the farm and it is not linked to an investment</p> <p>There are 3 categories</p> <ul style="list-style-type: none"> <li>- EUR 20.000 – 4 ESU</li> <li>- EUR 30.000 – 7 ESU</li> <li>- EUR 40.000 – 10 ESU</li> </ul>	Yes, max 50% and 60% in less favoured areas of a max. invest in different measures. Only for individual owner who has business plan and special “young farmer” registration. of
<b>Spain</b>	<p>A <b>single premium</b> of max. EUR 20,000 <del>not</del> linked to an investment.</p> <p>An <b>interest subsidy</b> of max. EUR 20,000</p> <p>This sum can be increased each time by + 10 % when:</p> <ul style="list-style-type: none"> <li>• It is a woman who is setting up</li> <li>• You hire an additional UTA</li> <li>• You are located in a less favoured area or zones of article 36 a): (i), ii) or iii) of regulation (EC) n° 1698/2005</li> </ul> <p><b>Max total aid: EUR 55,000</b></p>	<p>Yes, max 50% and 60% in less favoured areas of a max. invest of</p> <ul style="list-style-type: none"> <li>• Individual owners: EUR 90,152 per UTA and EUR 180,304 per holding (max 2 UTA)</li> <li>• Firms and companies: EUR 90,152 per shareholder and EUR 360,600 per holding (max 4 UTA)</li> <li>• Intensive crops (greenhouses for fruits and vegetables): EUR 601,012</li> </ul>
<b>France</b>	<p>The max of the <b>single premium</b> depends on the zone and it is not linked to an investment</p> <ul style="list-style-type: none"> <li>• EUR 35,900 mountainous areas</li> <li>• EUR 22,400 in less-favoured area</li> <li>• EUR 17,300 in flat land</li> </ul> <p><b>Interest subsidy:</b> The max amount of the loan the young farmer can take is EUR 110 000 for a period of 12 years in flat land and 15 years in other land; the loan can be activated during 10 years; the interest is subsidised by the state, so the interest that have to be paid by the YF is rather low. The interest also depends on the zone.</p> <ul style="list-style-type: none"> <li>• 2,5 % in flat land</li> <li>• 1 % in other areas</li> </ul>	Yes
<b>Ireland</b>	A <b>Single premium</b> of 9,500 Euro	N/A
<b>Italy</b>	<p><b>Single premium</b> of EUR 25,000</p> <p><b>Interest subsidy</b> linked to the cost of the investment with a capitalised value of a <b>maximum</b> of EUR 25,000</p> <p><b>Max total aid EUR 50,000</b></p>	
<b>Luxembourg</b>	<p>A <b>single premium</b> of max EUR 25,000 - not linked to an investment.</p> <p>An <b>interest subsidy</b> of max. EUR 25,000</p> <p>For an additionnel diplôme: EUR 5,000</p> <p><b>Max total aid: EUR 55,000</b></p>	Yes it is possible within 5 years after installation to obtain: Max: For investments in special-purpose crops, the max amount can be 55% of EUR 625,000.
<b>The</b>	Single premium of 20% of maximum investment	NO

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<b>Netherlands</b>	of EUR 100,000 per YF <b>Max aid EUR 20,000</b>	
<b>Austria</b>	Single Premium <b>linked to the labour use on the holding and to an investment of at least EUR 15,000:</b> <ul style="list-style-type: none"> <li>• 0.5 to 1 full-time labour unit: max EUR 1,850</li> <li>• 1 full-time labour unit (off-farm activity &gt;50%): max EUR 4,750</li> <li>• 1 full-time labour unit (off-farm activity &lt; 50%): max EUR 9,500</li> </ul>	Yes, Max 45% of max invest of EUR 127,177.46/VAK or of max EUR 254,354.92/farm and 55% in the less favoured area
<b>Portugal</b>	<b>A single premium of EUR 40.000</b>	<b>Yes, for YF setting up with project over EUR 25,000</b>
<b>Finland</b>	A <b>single premium</b> of max EUR 22,000, which is not linked in doing an investment, is an income in the final taxation. An <b>interest subsidy</b> of max EUR 22,000 and/or A <b>fiscal exemption</b> for the usual capital transfer tax equal to 4% of the purchase price <b>Max total aid incl. the fiscal exemption EUR 50,000</b>	Yes, max 25% to 55% out of max invest of EUR 840.000 in agricultural holding and EUR 1.300.000 in horticultural, there is no difference between the areas.
<b>Sweden</b>	There is a <b>single premium</b> of max EUR 11,000. Advantages are given to women and full time young farmers Farming has to be at least 25% of the total income. 2 years after setting up, the YF can obtain an <b>interest subsidy</b> of max. EUR 11,000 <b>Max total aid EUR 22,000</b>	Yes  (details still missing)
<b>United Kingdom</b>	No	No

*Please note that the blue parts have been updated in January 2008, and the green parts in October 2008.*

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# Plain English Compendium Summary

Young Farmer Finance Schemes	
<b>Project Title:</b>	
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<b>Objectives</b>	The objective of this report is to investigate what other countries do to assist their young farmers gain an asset in agriculture and to then formulate a financial model using the information gained to implement a program for Australia.
<b>Background</b>	With an ageing farmer population the next generation of farmers are finding that traditional lending criteria and practices are making it difficult to gain an asset in agriculture using finance. If people cannot progress in the agricultural industry to a point of their choosing then they are more likely to leave the industry because they feel excluded.
<b>Research</b>	Research was conducted in Australia, U.K, Belgium, Ireland, France, Netherlands, Canada and the U.S.A. Meetings were held with banking personnel, Local Government officials, Industry representative and lobby groups, industry support personnel and farmers.
<b>Outcomes</b>	The outline of a proposal to form a fund that co-finances young and beginning farmers using government guarantees and tax incentives to give these farmers the options and opportunities needed to gain an asset in agriculture.
<b>Implications</b>	This study provides a platform where finance to young and beginning farmers should assist the whole industry with generational change. The age profile of Australian farmers coupled with growing demand for agricultural production and innovation means we must insure the assets held by farmers over 55 can be efficiently transferred to the next generation.
<b>Publications</b>	