SUCCESSION OF FARMLANDS TO NON-FAMILY SUCCESSORS

OPTIONS FOR THE YOUNG GENERATION OF FARMERS

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INTRODUCTION

• Shortage of farm successors has become a critical problem in agriculture of Asia including Japan

• Farm succession to non-family members draws attention as an alternative to address this problem

• The Objective of this presentation:
   To illuminate advantages and challenges in the farm succession to non-family members, especially through establishing a company (Limited Liability Company or LLC)
THE STATE OF WORKFORCE IN JAPANESE AGRICULTURE
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JAPANESE AGRICULTURE

• The number of farmers is decreasing
• Japanese farmers are aging

Number of farmers and farmers of 65 years old or older in Japan (Unit: 1000)

<table>
<thead>
<tr>
<th>Year</th>
<th>1985</th>
<th>1990</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of farmers</td>
<td>5,428</td>
<td>4,819</td>
<td>3,891</td>
<td>2,606</td>
</tr>
<tr>
<td>65 years old or older (%)</td>
<td>1,443</td>
<td>1,597</td>
<td>2,058</td>
<td>1,605</td>
</tr>
<tr>
<td></td>
<td>(26.6)</td>
<td>(33.1)</td>
<td>(52.9)</td>
<td>(61.6)</td>
</tr>
</tbody>
</table>

Source: JMAFF statistics
THE STATE OF WORKFORCE IN JAPANESE AGRICULTURE

- A large portion of farm households have no successor

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2005</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial farm households</td>
<td>2,337</td>
<td>1,963</td>
<td>1,631</td>
</tr>
<tr>
<td>with successor</td>
<td>1,646</td>
<td>1,071</td>
<td>969</td>
</tr>
<tr>
<td>without successor</td>
<td>691</td>
<td>892</td>
<td>662</td>
</tr>
<tr>
<td>(%)</td>
<td>(29.6)</td>
<td>(45.4)</td>
<td>(40.6)</td>
</tr>
</tbody>
</table>

Source: JMAFF statistics
New Farmers

- The majority of new farmers are the “returning-home-to-start-farming”
- The “getting employed in farms” and the “new entrant farmers” have recently increased.

How new farmers start farming in Japan

<table>
<thead>
<tr>
<th></th>
<th>Year 2009</th>
<th>Year 2011</th>
<th>Year 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returning home to start farming</td>
<td>57,400</td>
<td>47,100</td>
<td>40,370</td>
</tr>
<tr>
<td>Getting employed in farms</td>
<td>7,570</td>
<td>8,920</td>
<td>7,540</td>
</tr>
<tr>
<td>Establishing a new farm (new entrant farmers)</td>
<td>1,850</td>
<td>2,100</td>
<td>2,900</td>
</tr>
<tr>
<td>Total</td>
<td>66,820</td>
<td>58,120</td>
<td>50,810</td>
</tr>
</tbody>
</table>

Source: JMAFF statistics
New Farmers

- “Returning-home” new farmers are old.
  - More than 60 percent are 60 years or older

- “Employed” farmers and “new entrant” farmers are younger

<table>
<thead>
<tr>
<th>Source: JMAFF statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age structure of new farmers (2013)</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Returning home to start farming</td>
</tr>
<tr>
<td>Getting employed in farms</td>
</tr>
<tr>
<td>Establishing a new farm (new entrant farmers)</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
Farm succession to non-family members

- Farm succession to non-family members also is becoming an option for those who newly enter farming.
  - But no specific figures are shown in the above statistical data.
- 3 patterns of farm succession by a non-heir successor
  - 1) succeed a farm when the new entrant farmer begins farming
  - 2) succeed farm after the successor and predecessor work together for a while
  - 3) establish a company with the predecessor then the successor takes over the predecessor
- In the statistical data above
  - Pattern 1) is counted as “new entrant” farmer
  - Pattern 2) and 3) are counted as “employed” farmer
Farm succession to non-family members

- Japanese government has policy programs to assist young generations to start farming as non-heir successors.
  - In 2008, the “Farm on Japan”
  - In 2010, the “Farm Succession Aid Program (FSAP)”

- However, many succession attempts through these programs had failed. (reported by JMAFF)

- There are still challenges in the succession to non-family members
LITERATURE ON NEW ENTRANT FARMERS
Literature

• Reported that new entrant farmers (including non-heir farm successors) face unique obstacles
  • i) access to land
  • ii) acquisition of skills in agriculture
  • iii) time and cost until being able to make stable earnings
  • iv) securing the initial financial capital
  • v) being accepted into and building trust with the local community
Coordinators can play critical roles in assisting entrants to get accepted in the place.

To overcome obstacles, support schemes offered by different organizations would be essential.

Still, acquiring material assets (e.g. farmlands and machinery) from predecessors is difficult for entrant farmers.
Literature

• Farm succession to non-family successors draws attention, because new farmers can acquire assets directly from predecessor without having to purchase.

• Characteristics of farm succession to non-family successors

  1) starting farming with greater “material/tangible” assets.
     • Successor need invest to acquire these assets.

  2) taking advantage of “non-material/intangible” assets.

  3) To build trust between the successor and the predecessor, both parties may incur additional costs.

     • supports by public sectors and local communities would be critically important. (Yanagimura et al 2012)
Summaries so far

• Japanese farmers have suffered from the shortage of successors.

• The number of young generations who want to be a farmer with no farm-background increase.

• Farm succession to non-family successors might be a promising pathway to enter into farming; but there are some challenges.

The objective of this presentation

• To illuminate advantages and challenges in farm succession to non-family successors by establishing a company.
CASE STUDIES

Kaminaka Nougakusya and it’s graduates.
METHODOLOGY

• The case study: Wakasa Town
• The data collection relied on primarily interviews

• The analysis focused on how the entrant farmers
• 1) acquire material/tangible assets.
• 2) acquire non-material/intangible assets
• 3) establish credibility and trust among the local communities.
Kaminaka Nougakusuya

- *Kaminaka Nougakusuya* is located in Wakasa Town, Fukui Prefecture.
Training in Kaminaka Nougakusya

Kaminaka Nougakusya
Flowchart of *Kaminaka Nougakusya*

1. Send an application to *Kaminaka Nougakusya*
2. Training program for 2 years
3. Successor as non-heir successor under *Oyakata*
4. Independent farmer under *Sewanin*
5. Employed by *Kaminaka Nougakusya*
Oyakata and Sewanin

1. Oyakata and Sewanin have been chosen from farmers of influence in the area.

2. The role of Oyakata and Sewanin
   - Finding farmlands for new farmer (graduate of Kaminaka Nougakusya)
   - As a mediator between local community and new farmer
   - As an advisor of agricultural production and living in the community

3. Difference between Oyakata and Sewanin
   - Oyakata intend to succeed their farm to new farmer.
   - Sewanin is just a supporter of new independent farmer.

4. This system enables new farmers to overcome a variety of obstacles.
### FINDINGS

- **Supports system of Wakasa town (cases of being successor)**

<table>
<thead>
<tr>
<th>Status</th>
<th>Trainee</th>
<th>New farmer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>1(^{st}) year</td>
<td>2(^{nd}) year</td>
</tr>
<tr>
<td>Access to farmland</td>
<td>-</td>
<td>Paddies 2 ha and vegetable tracts 20 a for training</td>
</tr>
<tr>
<td>Technical guidance</td>
<td>For rice production</td>
<td>For rice production and sales</td>
</tr>
<tr>
<td>Stipend</td>
<td>US$500/month</td>
<td>US$700/month</td>
</tr>
<tr>
<td>House</td>
<td>Living in Kaminaka Nogakusha</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building trust with local community</td>
<td>Participating in local festivals and visiting local farmers as training programs</td>
<td></td>
</tr>
</tbody>
</table>

Source: the author’s interviews
FINDINGS (Case 1: Sanshin Farm)

• Established in 2006

• Successor: Mr. A (Kaminaka Nougakusya’s graduate)
  • had a dream to be a business owner
  • intended to be an independent farmer

• Predecessor (Oyakata): Mr. H
  • a large-scale farmer in Wakasa
  • his son had worked in non-agricultural sector

• They decided to establish a company for succession with a suggestion by the prefectural extension service.
FINDINGS (Case 1 : Sanshin Farm)

How to succeed farm

• 1) acquire material/tangible assets.
  • Farmlands are “re-rented” by Sanshin Farm
  • Farm equipment is “leased” from Mr. H

• 2) acquire non-material/intangible assets
  • As Mr. A gained skills and knowledge, he was allowed to take responsibility in the production planning.

• 3) establish credibility and trust among the local communities.
  • Mr. H had Mr. A get participate in local community meetings
FINDINGS (Case 2 : Kamiya Nouen)

• Established in 2007

• Successor: Mr. B (*Kaminaka Nougakusya’s* graduate)
  • Intended to be an independent farmer, but worried about time and cost until his product was sold.

• Predecessor: Mr. I
  • a middle-scale farmer in Wakasa
  • had failed to bring up an entrant farmer to be successor before accepting Mr. B

• They decided to establish Kamiya Nouen by Mr.I’s experience and the story of Sanshin Farm
FINDINGS (Case 2 : Kamiya Nouen)

How to succeed farm

1) acquire material/tangible assets.
   - Farmlands are “re-rented” by Kamiya Nouen
   - Farm equipment is ”leased” from Mr. I

2) acquire non-material/intangible assets
   - Mr. I had Mr. B participate in the planning of rice production.
   - Mr. I allows Mr. B to grow vegetables.

3) establish credibility and trust among the local communities.
   - Mr. I has succeeded to Mr. B early (in 2009) and help as an advisor.
FINDINGS (a company for succession)

• Each cases has established a company (Japanese LLC) for smooth succession of assets
  • Japanese LLC or *godo gaisya*
    • One of classes of business organizations defined by Japanese Corporate Law.
    • Easy to establish
    • Each member has equal right in decision-making
    • Profits can be flexibly distributed among members

• It enables new farmers to
  • 1) acquire material assets only by taking over president
  • 2) earn money when they start farming.
## FINDINGS (Summaries from cases)

<table>
<thead>
<tr>
<th>Initial stage in farming</th>
<th>Succession through a company</th>
<th>Establishing a new farm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm size</td>
<td>Larger</td>
<td>Smaller</td>
</tr>
<tr>
<td>Time period needed to be able to earn stably</td>
<td>Shorter</td>
<td>Longer</td>
</tr>
<tr>
<td>Material assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmlands</td>
<td>Properties accumulated by predecessors (^a)</td>
<td>Successors have to expand by themselves</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>Properties accumulated by predecessors (^a)</td>
<td>Successors have to procure by themselves</td>
</tr>
<tr>
<td>Additional investment</td>
<td>Not needed</td>
<td>Occasionally needed</td>
</tr>
<tr>
<td>Non-material assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skills and knowledge for management</td>
<td>Can be learned directly from predecessors</td>
<td>Successors have to learn by themselves</td>
</tr>
<tr>
<td>Sales channels</td>
<td>Established by predecessors and</td>
<td>Successors have to develop by themselves</td>
</tr>
<tr>
<td>Trust and credibility among local communities</td>
<td>Successors can tap into what predecessors have built</td>
<td>Successors have to build by themselves</td>
</tr>
</tbody>
</table>

\(^a\) In case of without establishing a company, the successor has to purchase from the predecessor.

Source: Cases of company from the author’s interviews; Cases of new farm establishment from Inamoto (1992) and Uchiyama (1999)
CONCLUSION

• Advantages of the succession by non-family members
  • 1) starting farming with large land
  • 2) counting on the predecessor’s farm machinery and other equipment
  • 3) gaining skills and knowledge from the predecessor
  • 4) allowing the successor to be recognized and admitted smoothly by the community.

• Especially when a company (LLC) is established for smooth succession,
  • 1) the successor can acquire assets without investment
  • 2) the successor can earn from farming readily and become a full-time farmer.
CONCLUSION

• Challenges in the succession by non-family members

• 1) the matching between the successor and the predecessor is critically important.
   • In *Kaminaka Nougakusya*, its staff members can give effective and timely advices.

• 2) the predecessor has to take care of the entire process to inherit non-material / intangible assets to the successor.
   • Knowledge management and using ICT could be highly valuable.
Thank you for your kind attention