

Effects and Problems of the Direct Payment System for Hilly and Mountainous Areas



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1. Current Facts and Problems of Hilly and Mountainous Areas

(1) Current facts and trend of hilly and mountainous areas

[Share of resources etc. of hilly and mountainous areas]

| | | |
|--|---|------------------|
| ● Number of rural communities (2000) | 67,132 | (49.7% of total) |
| ● Number of farm households (2005) | 1.23 million | (43.3% of total) |
| | [commercial farm] 820 thousand households | (41.7%) |
| ● Total population (2005) | 17.41 million | (13.6% of total) |
| ● Population of farm households (2005) | 3.32 million | (39.7% of total) |
| ● Gross agricultural output (2005) | 3.4 trillion yen | (38.8% of total) |
| ● Total land area (2005) | 24.08 million hectares | (64.8% of total) |
| ● Forest area (2005) | 19.86 million hectares | (79.9% of total) |
| ● Cultivated area (2005) | 2.03 million hectares | (43.3% of total) |

[Trend of resources etc. of hilly and mountainous areas]

| | | |
|---|-----------------------|----------|
| ● Number of rural communities (1990-2000) | -2,555 | (-3.7%) |
| | Nationwide: -3.5% | |
| ● Number of farm households (2000-2005) | -162 thousand | (-12.0%) |
| | Nationwide: -11.7% | |
| ● Population of farm households (2000-2005) | -832 thousand | (-20.0%) |
| | Nationwide: -20.0% | |
| ● Cultivated area (1995-2005) | -60 thousand hectares | (-2.9%) |
| | Nationwide: -6.9% | |

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(1) Current facts and trend of hilly and mountainous areas (continued)

[Aging in hilly and mountainous areas]

| | (1995) | (2000) | (2005) | (1995) | (2000) | (2005) |
|--|--------|----------------|----------------|-------------------|----------------|----------------|
| ● Total population | 21.7% | →25.1% | →27.3% | Nationwide: 14.5% | →17.3% | →20.1% |
| ● Population of farm households | 26.2% | → <u>30.5%</u> | → <u>33.5%</u> | Nationwide: 24.7% | →28.6% | → <u>31.6%</u> |
| ● Farmers [commercial farm] | 29.9% | → <u>34.7%</u> | → <u>39.5%</u> | Nationwide: 28.4% | → <u>33.1%</u> | → <u>37.8%</u> |

Note: Population of farm households in 2005 is for commercial farm households only.

[Condition for agricultural production]

* The 4th basic research of infrastructure development for farmland use (2001)

● Sloping of paddy fields

| | | |
|-----------------------------|---------------------------|--------------------------|
| Hilly and mountainous areas | Steep slope: <u>26.1%</u> | Mild slope: <u>52.5%</u> |
| Flat farming areas | Steep slope: 6.5% | Mild slope: 34.5% |

● Infrastructure development for farming

| | (Paddy field) | (Dry field) |
|-----------------------------|--------------------------------|-------------------------------|
| Hilly and mountainous areas | 30-are or larger: <u>52.1%</u> | Field irrigation: <u>8.7%</u> |
| Flat farming areas | 30-are or larger: 68.7% | Field irrigation: 15.0% |

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(1) Current facts and trend of hilly and mountainous areas (continued)

[Share of abandoned farmland] (2005 [total])

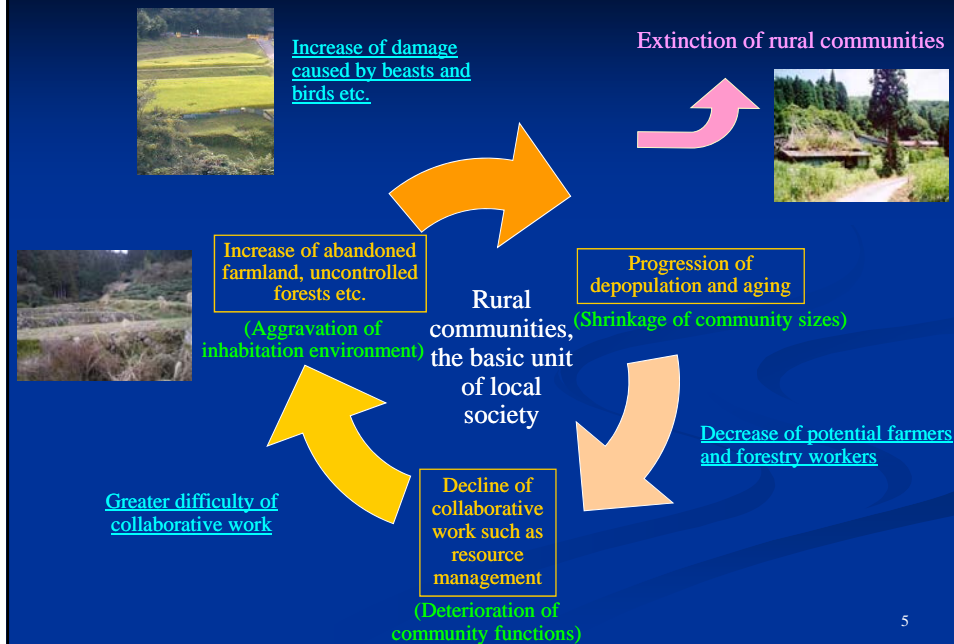
| | | | |
|----------------------------|-----------------------|----------|--|
| Nationwide: | 38.9 million hectares | (100.0%) | Note: [total] means the total of areas owned by farm households, agricultural holdings and land-owning non-farm households |
| Urban areas: | 7.9 million hectares | (20.3%) | |
| Flat farming areas: | 10.0 million hectares | (25.7%) | |
| Hilly farming areas: | 14.9 million hectares | (38.3%) | |
| Mountainous farming areas: | 6.0 million hectares | (15.4%) | |
| | | | Hilly and mountainous areas total <u>53.7%</u> |

[Trend of abandoned farmland] [total]

| | (1995) | (2000) | (2005) |
|------------------------------------|-----------------|---------------------------|---------------------------|
| Hilly and mountainous areas | | | |
| Area of abandoned areas | 13,200 hectares | → <u>188,000 hectares</u> | → <u>209,000 hectares</u> |
| Rate of abandoned areas | 7.7% | → <u>11.2%</u> | → <u>13.1%</u> |
| Flat farming areas | | | |
| Area of abandoned areas | 67,000 hectares | → 87,000 hectares | → 100,000 hectares |
| Rate of abandoned areas | 3.3% | → 4.6% | → 5.6% |

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(2) Problems of hilly and mountainous areas



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2. Introduction and Current Status of Direct Payment System for Hilly and Mountainous Areas

(1) Aim and outline of the policy

[Aim]

Multiphase functions (land conservation, wellhead protection and landscape conservation) in hilly and mountainous areas, are working through farm production activities etc. Besides the aging of population, these areas have disadvantages in production conditions such as having more slopes than flat farming areas. Increase of abandoned farmland etc. has raised fears of deterioration of multiphase functions.

Direct payment is introduced in fiscal 2000 for the purpose of preventing the increase of abandoned farmland and securing multiphase functions through the maintenance of farm production activities by means of training potential farmers for example.

[Outline]

- Covered areas: Areas designated by the eight acts for regional development
- Covered farmland: 1-hectare or larger communal area consisting of steep slopes (paddy field over 1/20 slope, dry field over 15° slope), moderate slopes (paddy field over 1/100 slope, dry field over 8° slope), small partitioned areas and undeveloped paddy fields etc.
- Activities to which the scheme applies: Farm production activities etc. lasting at least five years in compliance with the community agreement (or individual agreement)
- Beneficiaries: Farmers engaging in farm production activities in compliance with the relevant agreement (including joint public-private venture and production organizations etc.)
- Criteria for subsidization:

| | | | |
|-----------------------------|--------------------|------------------------------|-----------------------|
| Paddy field over 1/20 slope | 21,000 yen/10 are, | Paddy field over 1/100 slope | 8,000 yen/10 are |
| Dry field over 15° slope | 11,500 yen/10 are, | Dry field over 8° slope | 3,500 yen/10 are etc. |
- Other: Success/failure and other issues concerning the scheme are discussed every five years. (1st phase plan: fiscal 2000 - 2004)

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(2) Results of direct payment for hilly and mountainous areas and review of the scheme for the 2nd phase

Table 1
Status of implementation of direct payments for hilly and mountainous areas etc.
(Unit: 1,000 hectares, 10 million yen)

| | 1st phase plan | | | | | 2nd phase plan | | | |
|---|----------------|--------|--------|--------|--------|----------------|--------|--------|--------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Number of agreements | 26,119 | 32,067 | 33,376 | 33,775 | 33,969 | 27,869 | 28,515 | 28,708 | 28,757 |
| Number of community agreements | 25,621 | 31,462 | 32,747 | 33,137 | 33,331 | 27,435 | 28,073 | 28,253 | 28,299 |
| Acreage of targeted farmland | 798 | 782 | 784 | 783 | 787 | 801 | 805 | 807 | 809 |
| Acreage of farmland with agreement signed | 541 | 632 | 655 | 662 | 665 | 654 | 663 | 665 | 664 |
| Percentage of acreage of covered farmland | 68% | 81% | 83% | 85% | 85% | 82% | 82% | 82% | 82% |
| Total payments | 4,194 | 5,142 | 5,383 | 5,458 | 5,491 | 5,025 | 5,135 | 5,170 | 5,179 |

Source: Status of implementation of direct payment for hilly and mountainous areas etc. (Rural Development Bureau, Ministry of Agriculture, Forestry and Fisheries)

■ Review of the scheme in the 2nd phase plan (fiscal 2005 – 2009)

- **Creation of community master plan** (mandatory)
- **Unit value of subsidies determined in accordance with the details of activities of the community**
Basic rate (80% of system development rate): proper farm production activities for five years (limited to management of watercourses, farm roads etc.)
System development rate (100%): in addition to the above, preparations for farm production activities for the future are strengthened (creation and use of farmland conservation map, improvement of productivity and profitability, training of potential farmers, two or more projects involving multiphase functions)

3. Changes of Cultivated Area and Abandoned Farmland after the Introduction of the Policy

(1) Comparison between prediction of arable acreage based on the trend up to 2000 and real arable acreage

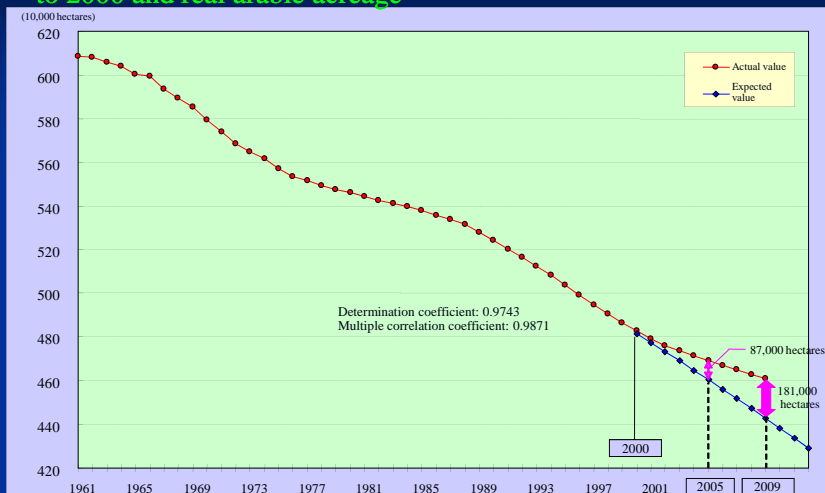


Figure 1 Difference from prediction of trend of cultivated area (regression analysis)

Source: Statistics of cultivated area and crop acreage
 Note: Regression analysis is based on data obtained in 38 years from 1961 to 1999.

- The curve of cultivated area has moderately declined since 2000.
 → Effects of a direct payment for hilly and mountainous areas?

(2) Comparison between prediction of abandoned farmland based on trends in the 1995 – 2000 period and results of the 2005 census

Table 2 Difference between the prediction of abandoned farmland and results of the 2005 census

(Unit: 1,000 hectares, %)

| | | Abandoned farmland (1,000 hectares) | | | | | | Rate of abandoned farmland | | |
|------|--------------|--|--------------|--|-------------|--|--------------|----------------------------|---------------------|----------------------------|
| | | National total | | Urban and flat area | | Hilly and mountainous area | | National total | Urban and flat area | Hilly and mountainous area |
| | | Area of increase (increase/decrease rate) Area of error (rate of error) | | Area of increase (increase/decrease rate) Area of error (rate of error) | | Area of increase (increase/decrease rate) Area of error (rate of error) | | | | |
| 1990 | Actual value | 217 | 32 (14.7%) | 100 | 17 (16.6%) | 117 | 15 (13.1%) | 4.5 | 3.3 | 6.5 |
| 1995 | Actual value | 249 | 97 (39.0%) | 117 | 41 (35.0%) | 132 | 56 (42.4%) | 5.4 | 4.0 | 7.7 |
| 2000 | Actual value | 346 | 44 (12.6%) | 158 | 23 (14.4%) | 188 | 21 (11.2%) | 7.7 | 5.6 | 11.2 |
| 2005 | Prediction | 454 | | 195 | | 259 | | 10.4 | 7.1 | 15.8 |
| | Actual value | 389 | -65 (-14.3%) | 180 | -15 (-7.8%) | 209 | -50 (-19.2%) | 9.1 | 6.7 | 13.1 |

Source: Dynamic statistics of farm structure based on the agricultural censuses for a 1990 – 2005 period and 2000
 Note: 1) Abandoned farmland of agricultural holdings and land-owning non-farm households is included.
 2) Prediction values for 2005 were calculated in the following procedures: (1) use the Markov Model with the correlation table of the number of farm households by cultivated area in a 1995 – 2000 period, to estimate the cultivated area for farm households and (2) use regression analysis to estimate cultivation area for agricultural holdings and land-owning non-farm households, followed by multiplication of the difference between the total cultivated area of both (1) and (2) and the acreage in 2000 by the rate of cultivated area desolation (ratio in a 1995 – 2000 period).

- The rate of increase of abandoned farmland dropped in a 2000 – 2005 period. As a result, the abandoned farmland in 2005 is drastically below the prediction especially in hilly and mountainous areas (smaller by approx. 50,000 hectares).
 → Effects of the introduction of a direct payment for hilly and mountainous areas?

4. Analysis of Effects of Direct Payment System for Hilly and Mountainous Areas

(1) Method of analysis

From the matching of rural community code and community agreement code, identify rural communities to which the direct payment scheme is applicable. Communities that have signed the agreement and communities that have not signed the agreement are specified in this way (Note).

(1) Aggregate the results of agricultural censuses for 1995 and 2000 by communities and analyze changes of agricultural structure etc. of the communities under the 1st phase plan by types of farm areas.

(2) Aggregately count results of the survey with representatives of the agreements concerning the direct payment for hilly and mountainous areas etc. and review and analyze the effects of the policy by the availability of paddy fields covered.

(Note) For matching data and basic data, use the code table and the basic data created in the 2007 report on evaluation of hilly and mountainous areas. (Japanese Institute of Irrigation and Drainage).

Compare the prediction of cultivated area based on the trend to 2000, with the actual value in 2005.

Review the effects of the direct payment system for hilly and mountainous areas

(2) Changes of community structure under the 1st phase plan

1) Status of signing of agreements for rural communities in hilly and mountainous areas

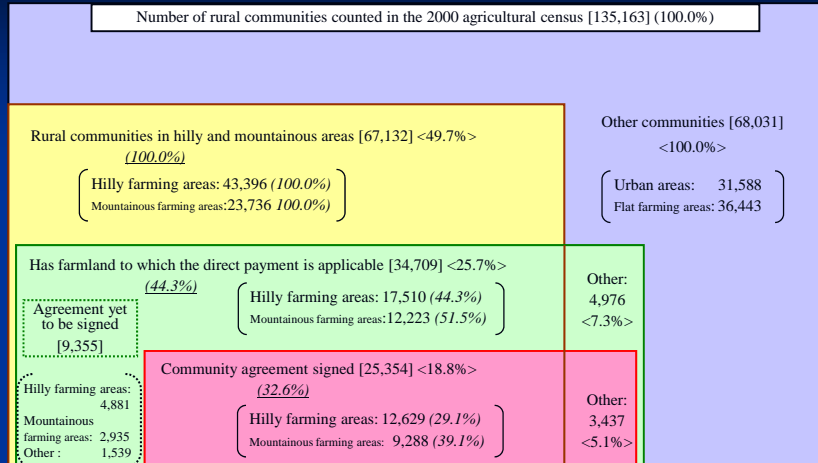


Figure 2 Number of rural communities that have signed a community agreement on direct payment (nationwide)

Note: The numbers of rural communities in the figure are based on the number of communities shown in the 2000 census.

- Slightly fewer than half of the rural communities in hilly and mountainous areas is covered by the scheme. Community agreement is signed by nearly one third.

2) Characteristics of rural communities before the introduction of the policy

Table 3 Characteristics of rural communities in 2000, before the start of the direct payment (prefectures)

| | Number of rural communities to be analyzed | Mountainous or canyon-like landform (%) | Number of households per community | | Arable acreage per village (ha) | | Steeply sloping paddy fields (%) | Infrastructure development of paddy fields (%) | Availability of agricultural association (%) | Annual number of meetings (times) | Ditches managed by collaborative work (%) | Availability of youth-led organizations (%) | |
|---------------------------|--|---|------------------------------------|-----------------|---------------------------------|---------------|----------------------------------|--|--|-----------------------------------|---|---|------|
| | | | Total number of households | Farm households | Total | Paddy acreage | | | | | | | |
| | | | (Unit: communities, %) | | | | | | | | | | |
| Prefecture | Communities that have signed the agreement | 23,416 | 51.6 | 58.6 | 21.8 | 24.0 | 14.6 | 12.8 | 65.5 | 74.9 | 8.9 | 73.6 | 31.1 |
| | Communities that have not signed the agreement | 9,302 | 48.8 | 64.7 | 20.9 | 21.8 | 12.2 | 14.4 | 57.3 | 69.6 | 8.1 | 69.6 | 26.3 |
| Hilly farming areas | Communities that have signed the agreement | 11,894 | 48.1 | 59.9 | 21.7 | 24.2 | 14.3 | 12.7 | 62.8 | 74.7 | 8.7 | 73.5 | 30.7 |
| | Communities that have not signed the agreement | 4,860 | 43.1 | 66.2 | 20.3 | 20.6 | 12.2 | 14.1 | 55.9 | 71.3 | 8.0 | 69.4 | 25.4 |
| Mountainous farming areas | Communities that have signed the agreement | 8,845 | 60.8 | 53.4 | 21.2 | 21.1 | 13.3 | 14.4 | 68.4 | 71.1 | 9.0 | 72.4 | 30.4 |
| | Communities that have not signed the agreement | 2,924 | 64.0 | 56.2 | 20.5 | 19.4 | 10.6 | 16.9 | 61.1 | 61.7 | 8.2 | 68.6 | 26.6 |

Source: 2000 agricultural census

- ◆ Paddy acreage in the communities that have not signed the agreement is small, with many sloping paddy fields and a low rate of infrastructure development.
→ Paddy production is inferior
- ◆ Communities that have signed the agreement have more meetings than communities that have not signed the agreement and also excel in the rate of cooperative management of ditches and the rate of organization of agricultural associations, youth groups etc. (in particular, the difference between both is larger in mountainous farming areas)
→ The difference in community functions has been apparent since the beginning of the operation of the scheme.

3) Changes of agricultural structure in rural communities

Table 4 Changes of frequency of farmland use and number of farm households (prefectures)

(Unit: %)

| | Number of rural communities to be analyzed | Increase/decrease of cultivation acreage | | | Increase/decrease of acreage of abandoned farmland (farm households total + land-owning non-farm households) | Rate of abandoned areas | | | Increase/decrease of farm households | | | Farm households with a cohabiting successor | |
|---------------------------|--|--|----------------------------|---------------|--|---|-------------------------------------|-----------------------|--------------------------------------|--------------------------------|----------------------------|---|-------|
| | | Total | Commercial farm households | Paddy acreage | | Farm households total + land-owning non-farm households | | Farm households total | Commercial farm households | Non-commercial farm households | Commercial farm households | | |
| | | | | | | 2005 | Increase/decrease point versus 2000 | | | | 2005 | Increase/decrease point versus 2000 | |
| | | | | | | | | | | | | | 2005 |
| Prefecture | Communities that have signed the agreement | 23,416 | -7.8 | -8.9 | -7.5 | 7.8 | 13.5 | 1.7 | -8.0 | -14.8 | 12.2 | 39.6 | -10.4 |
| | Communities that have not signed the agreement | 9,302 | -10.7 | -12.6 | -11.2 | 10.2 | 21.0 | 3.3 | -9.0 | -15.1 | 10.4 | 39.2 | -11.4 |
| Hilly farming areas | Communities that have signed the agreement | 11,894 | -7.5 | -9.1 | -7.8 | 7.5 | 14.1 | 1.7 | -8.2 | -16.3 | 11.7 | 39.5 | -10.7 |
| | Communities that have not signed the agreement | 4,860 | -11.4 | -13.0 | -11.2 | 8.7 | 22.6 | 3.4 | -9.9 | -16.4 | 10.2 | 39.3 | -12.0 |
| Mountainous farming areas | Communities that have signed the agreement | 8,845 | -9.2 | -9.9 | -8.3 | 7.5 | 14.1 | 1.9 | -7.3 | -13.4 | 13.1 | 38.6 | -8.7 |
| | Communities that have not signed the agreement | 2,924 | -15.9 | -18.1 | -15.5 | 10.0 | 22.7 | 4.4 | -7.9 | -13.5 | 7.5 | 37.6 | -8.6 |

Note: 1) Source: aggregate of figures recorded in the research of farm management entities in the 2000 and 2005 agricultural censuses
 2) All of the percentages of increase/decrease were recorded in a 5-year period between 2000 and 2005.

- ◆ The percentage decreases in cultivation acreage and increase in abandoned farmland are smaller in **communities that have signed the agreement** than in communities that have not signed the agreement. → **The effects of preventing cultivation abandonment have appeared.**
- ◆ The percentage decrease in the total number of farm households is slightly smaller in **communities that have signed the agreement** and little difference is recognisable concerning commercial farm households (the difference is recognisable in the percentage increase in non-commercial farm households in hilly and mountainous areas).
- ◆ Difference in the percentage of farm households that have a cohabiting successor is minor (degree of drop in a five-year period is largest in **communities that have not signed the agreement** located in hilly farming areas) → **The policy has not yet led communities to find successors.**

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3) Changes of agricultural structure in rural communities (continued)

Table 5 Changes of farm workforce and status of participation in production organizations (prefectures)

(Unit: %)

| | Population of farm households | Population mainly engaged in farming | | | Rural communities with households participating in farm production organizations | | | | Farm households participating in production organizations (commercial farm households) | | | | |
|---------------------------|--|--------------------------------------|------------------------------------|-------------------------------------|--|------------------------------------|-------------------------------------|---|--|---|-------------------------------------|------|-------------------------------------|
| | | Increase/decrease (farmers total) | Aging (commercial farm households) | | Increase/decrease (commercial farm households) | Aging (commercial farm households) | | Increase/decrease of communities | | Percentage of the number of communities | | | |
| | | | 2005 | Increase/decrease point versus 2000 | | 2005 | Increase/decrease point versus 2000 | Production organizations total (actual) | Organizations sharing machinery and facilities | 2005 | Increase/decrease point versus 2000 | 2005 | Increase/decrease point versus 2000 |
| | | | | | | | | | | | | | 2005 |
| Prefecture | Communities that have signed the agreement | -14.7 | 34.0 | 3.9 | -11.9 | 62.7 | 6.0 | 2.3 | 3.1 | 49.7 | 1.1 | 16.8 | 0.4 |
| | Communities that have not signed the agreement | -15.8 | 34.3 | 3.8 | -15.6 | 62.9 | 5.3 | -6.8 | -7.9 | 28.4 | -2.1 | 8.7 | -1.4 |
| Hilly farming areas | Communities that have signed the agreement | -14.9 | 33.8 | 3.9 | -12.4 | 62.3 | 6.0 | 20 | 2.7 | 50.9 | 1.0 | 16.1 | 0.0 |
| | Communities that have not signed the agreement | -16.3 | 34.4 | 3.7 | -16.3 | 63.5 | 5.3 | -7.9 | -9.7 | 28.8 | -2.5 | 8.4 | -1.7 |
| Mountainous farming areas | Communities that have signed the agreement | -14.5 | 35.8 | 4.0 | -11.2 | 67.5 | 6.1 | 2.4 | 2.8 | 44.7 | 1.0 | 17.2 | 0.9 |
| | Communities that have not signed the agreement | -16.3 | 37.0 | 4.1 | -17.3 | 68.2 | 5.1 | -10.5 | -10.2 | 20.1 | -2.4 | 7.1 | -0.7 |

Note: 1) Source: aggregate of figures recorded in the research of farm management entities in the 2000 and 2005 agricultural censuses
 2) All of the percentages of increase/decrease were recorded in a 5-year period between 2000 and 2005.

- ◆ No significant difference is recognisable in the percentage decrease in the farmer population. However, **the percentage decrease in the population of the agricultural workforce is larger in communities that have not signed the agreement** (the status of aging has changed very little).
- ◆ A marked contrast is recognisable in the status of participation in farm production organizations. While the percentage of farm households participating in production organisations and the percentage of farm households are both dropping in **communities that have not signed the agreement**, the percentages are increasing in **communities that have signed the agreement** (particularly remarkable in "Organizations sharing machinery and facilities"). → **Leading to sharing in farm production, besides collaborative work in the conservation and management of farmland and ditches**

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4) Conservation of local resources and exchange with urban areas etc.

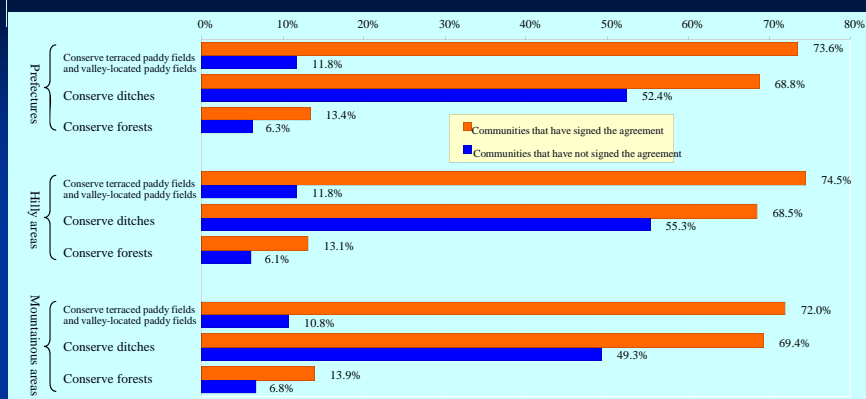


Figure 3 Percentage of rural communities with citizens' initiatives in conserving local resources (prefectures: 2005)

Note: aggregate of figures recorded in the 2005 census

- ◆ Just over 70% of communities that have signed the agreement have local leadership in the conservation of "terraced paddy fields and valley-located paddy fields" (10% in communities that have not signed the agreement)
- ◆ The percentage of villages in which local people take the initiative in conserving ditches and forests is larger in communities that have signed the agreement.

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4) Conservation of local resources and exchange with urban areas etc. (continued)

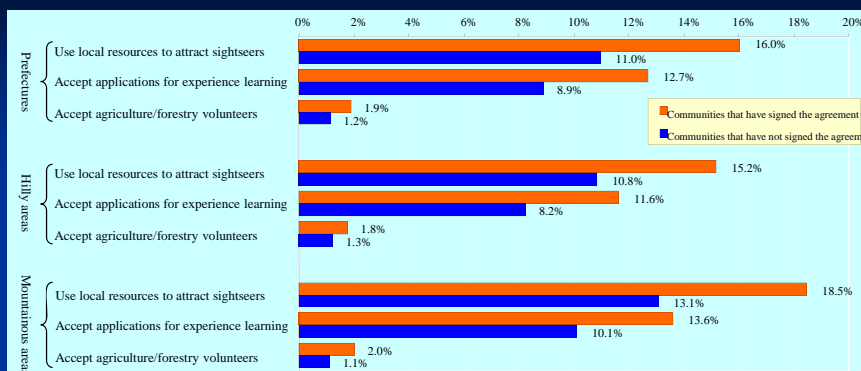


Figure 4 Percentage of rural communities making exchange with inhabitants of urban areas (prefectures: 2005)

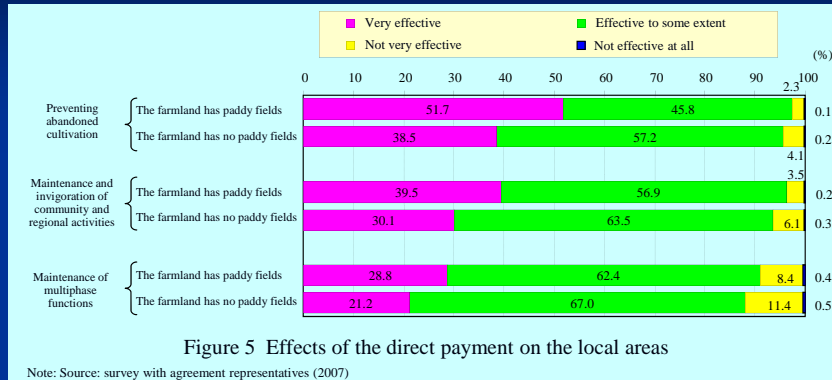
Note: aggregate of figures recorded in the 2005 census

- ◆ The percentages of communities using local resources to attract sightseers, communities accepting applications for experience learning and agriculture/forestry volunteers are larger in communities that have signed the agreement than in communities that have not signed the agreement.
→ This policy facilitates exchange with inhabitants of urban areas, although the percentage of such inter-area exchange is still small.

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(3) Analysing the representatives' survey with respect to the effects of the direct payment

1) Representatives' expectations of the effects of the policy



- ◆ “Preventing abandoned cultivation” is most commonly expected in this policy (more than half of the paddy agreements say the scheme is “very effective”)
- ◆ Expectations of the “maintenance and invigoration of community and regional activities” is also large and about 40% of paddy agreements and 30% of non-paddy and pasture agreements say the policy is “very effective” for that purpose.

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2) Preventing cultivation abandonment and maintenance of production environment

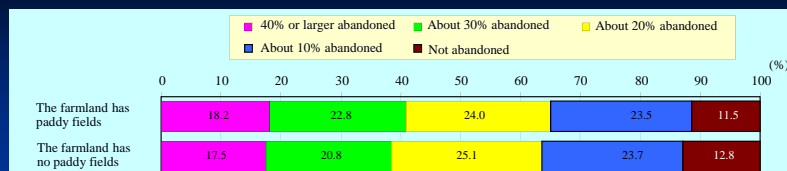


Figure 6 Estimated abandonment of cultivation in the next five years without this policy

Note: Source: survey with agreement representatives (2007)

- ◆ Nearly 40% of the agreements say at least 30% of farmland in the community would be abandoned in the next five years without this policy (slightly fewer than 20% of the agreements say at least 40% of farmland would be deserted).

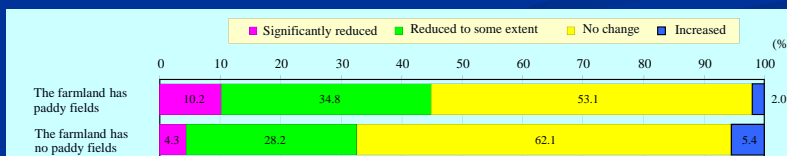


Figure 7 Changes of pest damage occurring from abandoned farmland etc.

Note: Source: survey with agreement representatives (2007)

- ◆ Of the paddy agreements, 45% led to a reduction in pest damage from abandoned farmland etc.

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3) Invigoration of communities through encouragement of discussions

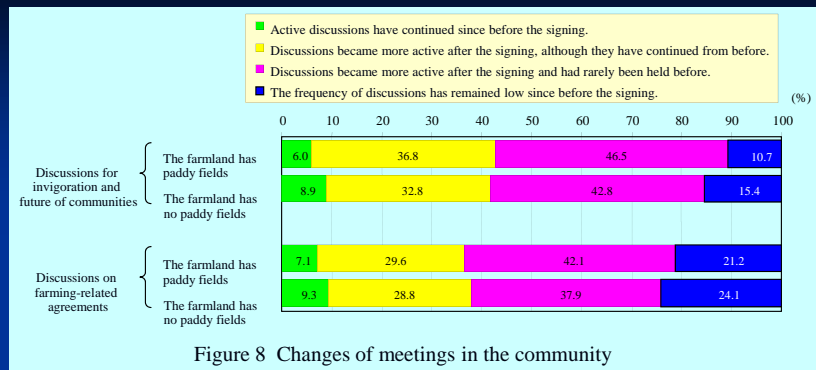


Figure 8 Changes of meetings in the community

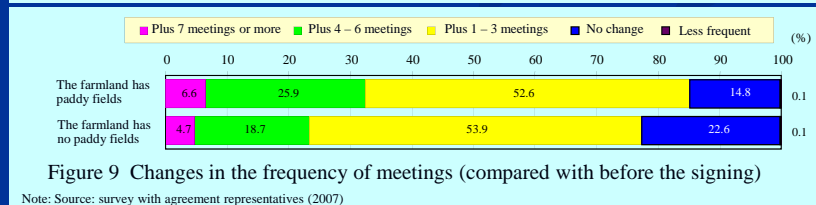


Figure 9 Changes in the frequency of meetings (compared with before the signing)

Note: Source: survey with agreement representatives (2007)

- ◆ “Discussions within the community” increased after the signing of the agreement. Discussions increased in at least 80% of paddy agreements.

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4) Changes of communities in comparison with years before the introduction of the policy (1999 and before)

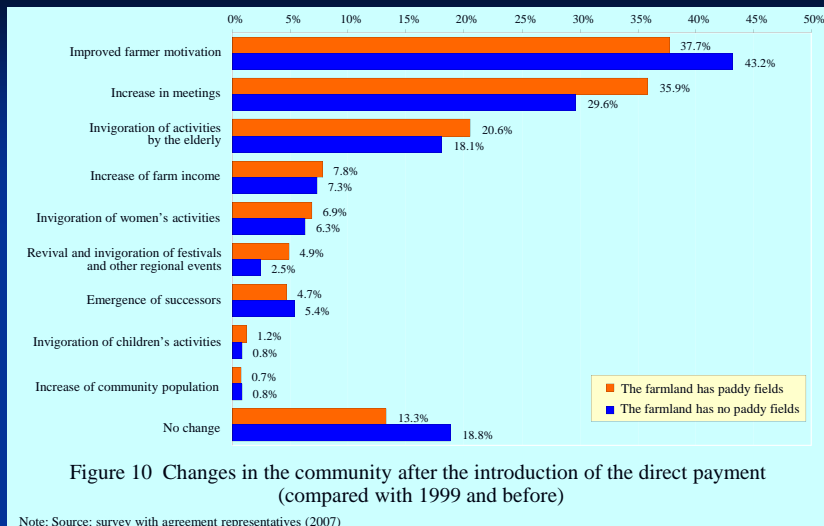


Figure 10 Changes in the community after the introduction of the direct payment (compared with 1999 and before)

Note: Source: survey with agreement representatives (2007)

- ◆ The most common answer to the question “What in your community changed most with the introduction of the scheme?” is “improved farmer motivation” (38% of paddy agreements), followed by “increase in meetings” (36%) and “invigoration of activities by the elderly” (21%)
- ◆ About 8% answered “increase in farm income.”

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(4) Summary

- The trend in the five-year period for the 1st phase plan alone is enough to show the great significance of the scheme's effects on preventing the abandonment of cultivation. (With and without the agreement, differences between the decrease in cultivated area and the increase in abandoned farmland are clear. Similar results are found in the survey with the agreement representatives)
- No significant difference is recognisable in the number of farm households and the downward trend in the population of farm households. However, a clear difference is recognized in the downward trend in the number of agricultural workforce (however, no difference is recognisable in aging)
- Considerable change in the status of participation in “organizations sharing machinery and facilities” and other production organizations (management of local resources evolves into sharing in farm production)
- In some regions, the signing of a community agreement has led to an increase (invigoration) in meetings, activities for maintaining multiphase functions as well as farm production and exchanges with inhabitants of urban areas (effectively invigorating the communities).
- After the introduction of the policy, about 40% of agreements improved farmer motivation. Moreover, just over 80% of the communities undergo some changes in comparison with before the signing.

Direct payment
system for hilly and
mountainous areas

Very effective in invigorating communities as well as preventing the abandonment of cultivation

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5. Issues to be Tackled in the Direct Payment System for Hilly and Mountainous Areas

- Shift to a more consistent policy based on a long-term view
 - **Permanence of the system** (the current mechanism in which the existence of the policy is reviewed every five years is very weak)
 - **Clarification of the aim** of this policy (supplementation of disadvantages in production conditions, subsidization for revitalization of communities, structural policies, plans for core farmers?)
- Review of covered areas and farmland
 - Treatment of sporadically located farmland and other farmland that are not covered by the system and are adjacent to farmland covered by the system
- Determine the unit value of subsidies and review the amount shouldered by local governments
 - Review the **grounds for calculation** of unit value
 - Review the basic rate (80% of system development rate) and increase **additional measures** (additional subsidies)
 - Gaps in the operation of the policy occur among local governments depending on their financial situations.
- Coordination of relations with other policies (measures for improvement of conservation of farmland, water and environment, for example)
- Discuss actions to prevent farmers from withdrawing from the agreement and plans to support them
- Discuss actions to support communities that have not signed the agreement



Some of these issues will be reviewed in the 3rd phase plan.

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