

FARMINFIN



Farming concepts and innovative
funding/financing

CASE STUDY

Anonymous



INTRO

In the following case study you will find a broad-spectrum financing tool that can be replicated by many farmers. It consists of a lease contract in which one party gives up the land for a period of time, so that the other party can make investments in the land. At the end of the lease, the lessee receives ownership of part of the land in exchange for the improvements, while the lessor receives the rest of his assets revalued by improvements made by a third party.

This is an ideal tool for farmers who want to acquire land without having to make the purchase, with a large initial outlay, and without generating very high debt positions. It therefore seems ideal for young farmers or farmers with a vocation to grow and who are capable of assuming the cost of labour themselves.

This is a case, in which it was essential to know how to evaluate investments, plan payments and establish lasting contractual relationships based on trust. Trust that allowed for detailed negotiation of the conditions of a contract that had to satisfy all parties.

1. PERSONAL DATA OF THE FARMER



- ▶ **Name:** Anonymous.
- ▶ **Birth year:** 57 years old.
- ▶ **Gender:** Male.
- ▶ **Education:** Professional Farmer.
- ▶ **Occupation:** Farmer.

2. FARM DATA

- ▶ **Farm location:** He has different properties in the municipalities of Torredelcampo, Jaén, Fuerte del Rey and Cazalilla, the land subject of the financing of this case is in the municipality of Cazalilla.
- ▶ **Farm Area in ha:** 50 ha (35 ha Olive Grove and 15 ha farmland).
- ▶ **Farm description:** Our promoter owns a mixed olive and cereal farm in the province of Jaén, the farm was inherited from his parents, being a professional farmer since 1992. Over the years his farm has evolved, in recent years he has been handing over part of his farm to his children who have joined him and are now also working as farmers.

Our promoter is a self-employed entrepreneur who manages land owned and leased in equal parts. His farm generates work for 3 people per year, as well as for eventual workers during the harvesting period. His children have worked with him for many years, but in recent years they have started their own farms thanks to their father's support.

The plot of land under study in this case is located in the municipality of Cazalilla. It was originally farmland, which with the funding was intended to become a permanent olive grove with an 8x8 frame.

3. FINANCING AND ACCESS TO FUNDING

Our promoter has been a farmer for a long time, since he succeeded his family in the agricultural business, his objective has been to prosper and develop his business, and thus be able to guarantee the sustainability of his farm and the continuity of his children in the same activity.

With this desire, he began to look for farmland to plant an olive grove. He wanted a plot of land that he could manage on his own and where he could assume the costs of labour force. The opportunity arose when another farmer in his area offered him to lease a plot of cereal land. From the harmony of both parties and after a process of development of the project, they devised a system that would satisfy both parties.

The final formula consisted in making a cereal land lease contract for 10 years, in that period our promoter would execute improvements over the whole surface consisting in planting olive at a 8x8 frame, keeping the plot in good maintenance conditions.

During that period the owner would receive the amount of the annual lease, as well as the amount derived from his CAP payment rights. At the end of the contract he would give up 1/3 of his farm to our developer, and would keep in exchange 2/3 of his farm with an olive grove plantation that would double its patrimonial value (60% of the area x 2 times its original value = 120% value of the asset after 10 years receiving lease income and value of his CAP rights).

On the other hand, our promoter would execute the necessary investments to plant olive groves in 100% of the plot, paying annually the value of the lease and receiving the value of the basic payment rights corresponding to that plot. In exchange he would receive 1/3 of the planted plot as owner at the end of the 10 years contract.

Apart from the benefits described for both parties, this formula offered significant financing benefits to our developer. Firstly, we must consider that a new olive plantation does not start to be productive until the fourth year, not covering the investment costs until 8-10 years, even more considering the need of buying the land.

Therefore this formula was interesting for our promoter since he did not have to execute the purchase of the land, limiting his investment to the plantation and the necessary labour to put the plantation into production. Considering that he would provide the labour, the monetary cost for him would be to execute 100% of the plantation, obtaining as a return 1/3 of the land and the plantation executed by him.

The plantation was paid for with his own funds, although at the end of the contract, the possibility arose of installing irrigation, so he decided to apply for a bank loan to carry out the irrigation system on a plot they already owned, making the application and concession process much easier and quicker.

For the future, the mechanization needs of this plantation has made them consider applying for the Modernization grants recently published in the Autonomous Community of Andalusia, with which to undertake the renewal of equipment suitable for the plantation framework.

“Countryside is very grateful, the improvements are profitable. You have to maintain the control and have confidence. But a diligent evaluation must be made.”

“If the circumstances are right, you have to be enterprising and courageous. In our case, these circumstances were present and it worked out brilliantly.”

4. TRAINING NEEDS AND CONCLUSION

► **Training experiences and gaps:** This case demonstrates that some financial competencies are necessary for farmers to develop. In order to finance investments, it is essential to know how to evaluate the investment in economic terms. From identifying the needs of a farm and prioritizing the investments to be made, to knowing how to estimate income and expenditure that can be projected over time. In this case, evaluating the return on investment period was fundamental in defining the terms and economic conditions of the lease.

Another fundamental aspect is the human aspect. Establishing an economic relationship with another person in the long term requires establishing a personal relationship of trust, which is why empathy becomes a fundamental capacity when it comes to negotiating the details of the contract as well as resolving any possible conflicts that may arise.

Finally, it is essential to develop an entrepreneurial and investment spirit. The conservative profile of the agricultural sector often limits investment and improvement, making it difficult for many to grow and evolve. Improving economic assessment skills, knowing that there are advisors who can accompany throughout the process, and gaining confidence that things will go well, can encourage many farmers to take the plunge and make investment decisions they would not otherwise make.

► **Final considerations:** Our promoter found a formula that covered his business objectives, allowing him to finance his desire to make a new plantation via an alternative route. In this case, the good harmony between the parties facilitated the process and guaranteed the success and satisfaction of both farmers.

This experience illuminates the importance of generating relationships of trust to overcome possible difficulties, thus facilitating the negotiation processes and the definition of the contractual details that are necessary in a long-term relationship.

An important aspect, for the replicability of this experience in other countries, is the need to adapt the private contract to the specific regulations of each country in order to choose the most appropriate legal form (swap, purchase, leasing, leasing with purchase option, etc).

For the negotiation it is important to evaluate the investment and make a good business plan so that both parties find satisfaction in the process. If necessary, external advice is recommended to mediate between the parties to avoid uncertainty and suspicion. Any advice at a technical and legal level can be interesting and in certain cases required.

This formula is ideal for any farmer who wants to grow, by offering them the possibility of acquiring land and plantations with a low level of debt; who is interested in diversifying investments over time; and is not afraid of assuming a high workload. It fits, for example, the profile of young farmers, who may have other sources of agricultural income outside the improved plot or who are eligible to receive EU Installation Aid which guarantees their sustainability in the first years after planting.

This model is also ideal for land-owners who are not interested in actively farming the land, but would like to keep ownership and wish to see the land revamped or revalued. This model allows them an opportunity to increase their land value without having to be aware of the whole process. For example, those with a professional profile out of agriculture or elderly people who can no longer take care of the farm and whose children will not continue with the family farm.

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