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ADOPTING LEASE FINANCE AS A WAY TO BOOST RURAL AGRICULTURE IN NIGERIA AND THE DEVELOPING WORLD

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Abstract: **Most farmers in developing societies are poor especially in Nigeria. They encounter many challenges that make them seldom benefit or gain from their agrarian endeavors. Many measures have been adopted by various people and therefore this paper intends to create additional solution to the problem. In this paper we introduce Lease Finance system to boost rural agriculture. Using this system, African governments can revive their agricultural sector and increase and improve its exports.**

Keywords: **Lease Finance, Nigerian agricultural industry, and rural farmers.**

1. INTRODUCTION

Agriculture in developing societies is a predominantly rural affair. Rural farmers in developing societies encounter so much challenge because agriculture is such a sensitive sector that is easily affected by uncontrollable factors. (Pettinger 2014) states that agriculture appears to be one of the most difficult industries, frequently leading to some form of market failure. Pettinger (2014) notes that in the EU, agriculture is the most subsidized industry, yet despite the cost of the industry it fails to address many issues relating to agriculture and further went on to note some of these market failures such as *1. Volatile prices/ Volatile supply. 2. Low and volatile income for farmers. 3. Environmental costs of intensive farming (negative externalities). 4. Agriculture key component of rural life (Positive externalities). 4. Monopsony power of food purchasers.* If agriculture poses a challenge to developed nations then developing nations are expected to experience greater challenge. Agriculture is faced with fundamental challenges (Francis and David 2012). Despite the strategies adopted by various governments in Nigeria to address agriculture and rural underdevelopment problem, the story remains the same. There are still inequality and poverty particularly in the rural areas (Francis and David 2012). Concern for agriculture and rural development becomes synonymous, with a common root and that the bedrock of agriculture and agricultural development in Africa is rural development without which all efforts at agricultural development will be futile (Francis and David 2012).

The structure of agricultural production in developing countries has radically changed in the last two decades (Kwa 2001). Kwa (2001) stated that in the late 60,s and 70,s the World Bank carried out series of activities designed to revive and promote agriculture. These activities were expected to benefit farmers including the poor, but the heavy dependence on imported inputs were not been sustained economically by developing countries. This takes us to the case of Nigeria during the 70,s and 80,s. Before the discovery of oil the Nigerian agricultural sector was booming. The sector contributed 80% of GDP. At this time farming activities was booming. The boom in agriculture encouraged people to engage in agriculture which helped a great deal in improving the sector. How ever the discovery of oil changed all that. (Kwa 2001) noted that the discovery of oil compounded the problem. The oil boom of the late 70,s and 80,s shifted focus from agriculture to oil thus leading to the total collapse of the industry. The oil industry since then till now has been the major contributor of Nigerian GDP.

The story of farming in the developing world is a completely different one (Huffington post 2013). Huffington post (2013) stated that in the US agricultural workers make up a very small portion of the population and employs anywhere between 50% and in developing countries it employs 90%. The site further states that of this percentage, small farmers are the most prevalent form of producers making up 70-90% of those working in the agricultural sector. According to Bill and Melinda Gates foundation's website, three quarters of the world's poorest people get their food and income by farming small plots of land about the size of a football field. As such helping these small farmers in developing countries increase production and sell more crops is the best way to combat global hunger and poverty (Huffington post 2013). Huffington post (2013) further highlighted problems encountered by farmers in developing countries such as *unproductive soil, plant diseases, pests and droughts*. Other problems according to Huffington include *long distance between farm and water location, lack of improved seed or fertilizers and lots more*.

Further more (McCalla 2001) stated that in the developing world, poverty remains a predominantly rural challenge. To meet these challenges, McCalla (2001) called for the improvement in productivity and profitability of millions upon millions of small farmers and promote employment–intensive rural growth. He went on to note that presently, some 70 percent of the poor are still rural dwellers, the majority of whom draw some or all of their income from agricultural activities and made a revelation about the percentage of farmers living near or below poverty line whose figure he puts at billions. He states '*'literally billions of small and generally poor farmers live in poverty or near the poverty line*. Some measures recommended by McCalla (2001) are to *develop technologies, policies and institutions that contribute to unleashing agriculture's full potential as an engine of growth*. Agriculture will not be a way out of poverty for all rural people. Some smallholder farmers – particularly those with adequate levels of assets and access to transforming agricultural markets – certainly will be able to develop sustainable, commercialized production systems and these will allow them to move up and work their way out of poverty (Rural poverty report 2011 p184). Acquiring new land that enables them to expand their production and market surplus will in many cases be part of that process (Rural poverty report 2011 p184). Therefore in addition to these and other measures we also make a case for adopting the Lease Finance system to help rural farmers generate income.

Lease Finance:

- According to K.V Kamath et al., (1990) a lease Finance is a commercial arrangement where:

1. The lessee (customer or borrower) will select an asset (equipment, vehicle, software);
2. The lessor (finance company) will purchase that asset;
3. The lessee will have use of that asset during the lease period;
4. The lessee will pay a series of rentals or installments for the use of that asset;
5. The lessor will recover a large part or all of the cost of the asset plus earn interest from the rentals paid by the lessee;
6. The lessee has the option to acquire ownership of the asset (e.g. paying the last rental, or bargain option purchase price);

- K.V. Kamath et al., (1990) went further to give its features which are

1. It's not cancel-able
2. The lessor may or may not bear the cost of insurance, repair, maintenance etc. Usually the lessee has to bear all cost.
3. The lessor may transfer ownership of the asset to the lessee by the end of the lease term
4. The lessee has an option to purchase the asset at a price which is expected to be sufficiently lower than the value at the end of the lease period

2. TREATMENT IN THE UNITED STATES

K.V. Kamath et al., (1990) gave further details on how the system is practiced in the US. They state that under US accounting standards, a finance (capital) lease is a lease which meets at least one of the following criteria:

1. Ownership of the asset is transferred to the lessee at the end of the lease term;
2. The lease contains a bargain purchase option to buy the equipment at less than fair market value;
3. The lease term equals or exceeds 75% of the asset's estimated useful life;
4. The present value of the lease payments equals or exceeds 90% of the total original cost of the equipment.

Application to agriculture:

Applying this system to agriculture involves

1. Government locating rural farmers and offering a deal that requires them to lease out at least 50% of there farm produce for the government to export. This percentage is the specific agreed quantity of produce which might be any.
2. Government will be paying the farmers a determined periodic wage rate which serves as a payment for the leased farm produce.
3. The rural farmers will keep the remaining 50% of produce for themselves and in the end both parties i.e. the government and the farmers end up benefiting.
4. Government can offer either a long term lease deal to the farmers or can offer permanent lease deal to the farmer which is preferable. Permanent lease deal means that rural farmers become employees of government which will make their lives better off.

3. IMPORTANCE OF THIS SYSTEM

A country like Nigeria is having diverse problems in its agriculture industry. This has caused shortage of agro products to be exported. With this system government will have enough farm produce to export and feed the nation and it will see a renewed interest in agriculture. The incentive offered by government will see more people trooping in to the industry and thus will give it a boost. And the Nigerian agriculture industry will be revitalized. Through this scheme government can be able to regulate the prices of agro products which will make food affordable to the citizens.

Factors considered for payment of farmers:

1. Size of farm land. The larger the farm size the higher the volume of crop yield and thus higher percentage of produce lease calls for higher pay. We do not expect a farmer with a small farm size to be paid equally with a farmer that has large farm size. This is because both cannot lease equal quantity of farm produce.
2. Government must map out a payment scheme according to farm size. That is to say government can decide that farms with certain size will be paid this amount. Farmers with larger farm size will be paid this amount. This is because it is a fact that farmers with different farm sizes cannot lease out equal quantity of produce.
3. It must be a permanent occupation for farmers and not a temporal job. This is because government intends to have constant supply of farm produce which it exports and thus if farming is not consistent then it means its supply will not be consistent. Therefore government must ensure that it deals with actual farmers who take the job as an occupation and not just a pass time job.
4. Farmers must of necessity submit before a new farming season its production target and work towards it. This in essence makes government look forward to a lease target which is expected to lead to high export revenue and will help government prepare budget to cover the lease expense.
5. Dealing with subsistent farmers must be done in caution or not at all. This is to say government should not necessarily deal with subsistent farmers but commercial farmers. This is because commercial farmers tend to have larger farm size that can meet government lease target while subsistent farmers tend to have small farm size that cannot meet government lease target.
6. In the case government decides to deal with subsistent farmers, government must ensure that the farmers conduct farming on a regular basis to ensure regular supply of produce to government and government must also ensure that the farmers possess the required farm size.
7. Government must have a specified lease target from the farmers. It should have an average lease target of crops. This implies government deciding for instance at least on the average, 20 bags of harvested crops are needed from each farmer. This target will make farmers more serious in other to meet production target. This is necessary because it differentiates between real farmers and those that operate gardens.
8. In the case the farmers may want higher pay even when they possess small farm size, they can enter agreement with government to meet the required target even if it means giving out their entire or almost their entire farm produce which could lead them to having nothing. So long their small farm size can be maximized to increase produce which meets government target then government can engage with such farmers even if they fall under the subsistence category.

9. Government must appoint special envoys to supervise these farmers in other to prevent fraudulent activities from been perpetrated. Government must do this in other to know the exact quantity of farm produce that are harvested by farmers. Some farmers may hide some of their produce and deceive the government into paying for produce that is not the right target. The supervision also ensures that government knows the farmers it is dealing with and any other issues that farmers might hide from them.

4. PRACTICAL BENEFITS OF THIS SCHEME

Let us assume that there are a million rural farmers in a country. Government can publicly propose a lease deal that requires the farmers to lease out 50% of their farm produce to the government who in turn will export the produce and generate foreign revenue. The farmers can apply to be selected for the lease of their produce. When this is done government will have enough produce to export and earn foreign revenue.

The biggest challenges encountered by rural farmers in Nigeria are high cost of transporting farm produce, poor storage facilities that expose crops to early damage and loss, and the inability to sell crops at the desired time. The last challenge is the most dangerous of all because agrarian products are perishable subject to time and climatic conditions. All these burdens can best be shouldered by government on behalf of the farmers. It is believed that the income these farmers will receive from the government will cover the costs incurred by the farmers and the income they could have earned from selling their produce themselves. This system is expected to greatly benefit rural farmers.

5. CONCLUSION

Most governments tend to give out loans that run into billions and subsidize the prices of farm inputs to farmers who at the end of the day cannot repay back the loans and cannot recover there investments from purchase of farm inputs. Instead governments should employ these farmers and use the funds that it should have given out to farmers in loan and supply of subsidized farm inputs to pay the farmers a determined periodic wage rate that will entitle it to certain percentage of the farmers produce.

Nigeria is the most populous black nation on earth. It has a large land mass that is majorly controlled by rural farmers which if properly harnessed will improve it's GDP thus since it has been proven that majority of farmers in Nigeria are rural, government can start from the rural settings to create employment by engaging these farmers to be productive. If success can be achieved at the rural setting then this will naturally lead to growth in the urban setting and the economy as a whole. This paper thus makes a call to the Nigerian government and other African governments who are yet to adopt this system to do so because it is believed that it will help boost rural agriculture in their various countries.

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Conflict of Interest:

The author states no conflict of interest.

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