Mona
Assistant Professor (Guest Faculty)
Department of Economics
Maharaja College
Veer Kunwar Singh University, Ara
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Topic : Agricultural Finance , Meaning and classification

Agricultural Finance

Meaning :

"Agricultural finance is the study of financing and liquidity service credit provide to farm borrowers. It is also considered as the study of those financial intermediaries who provide loan funds to the agriculture and the financial market in which these intermediaries obtain their loanable funds."

Definition :

Murray ***(1953)*** *defined agricultural finance as "* ***an Economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society's interest in credit for agriculture."***

Warren F.Lee et al ***defined "Agricultural Finance as the economic study of the acquisition and use of capital in agriculture. It deals with the supply of and demand for funds in the agricultural sector of an economy. "***

Background :

Professional moneylenders were the only source of credit to agriculture till ***1935****. They use to charge unduly high rates of interest and follow serious practices while giving loans and recovering them. As a result, farmers were heavily burdened with debts and many of them perpetuated debts. There were widespread discontents among farmers against these practices and there were instances of riots also.*

With the passing of Reserve Bank of India Act ***1934****,* ***District Central Co-op. Banks Act*** *and Land Development Banks Act, agricultural credit received impetons and there were improvements in agricultural credit. A powerful alternative agency came into being. Large-scale credit became available with reasonable rates of interest at easy terms, both in terms of granting loans and recovery of them. Both the co-operative banks advance credit mostly to agriculture. First bank advances short-term and medium term loans while the second bank advances long-term loans. The Reserve Bank of India as the Central bank of the country took lead in making credit available to agriculture through these banks by laying down suitable policies.*

Although the co-operative banks started financing agriculture with their establishments in 1930's real impetons was received only after Independence when suitable legislation were passed and policies were formulated. There after, bank credit to agriculture made phenomenal progress by opening branches in rural areas and attracting deposits.

Till 14 major commercial banks were nationalized in ***1969****, co-operative banks were the main institutional agencies providing finance to agriculture.*

Classification of finance:

Agricultural credit can be classified ***based on purpose, time (repayment period), security, generation of surplus funds, creditor and number of activities for which credit is provided****.*

i) Purpose:

Based on the purpose for which loan is granted, agricultural credit is categorized into:

a) Development credit or Investment Credit: *This is provided for acquiring durable assets or*
for improving the existing assets. Under this, credit is extended for:
- purchase of land and land reclamation.
- purchase of farm machineries and implements
- development of irrigation facilities
- construction of farm structures
- development of plantation and orchards.
develonment of dairy, poultry, sheep/goat, fisheries, sericulture, etc.

b) Production credit: is given for crop, production*: Here, the loan amount is used for purchasing inputs and for paying wages.*
c) Marketing credit:
It is essential to carry out the marketing functions and to get higher prices for the produce.
d) Consumption credit*: It is the credit required by the farmer to meet his family expenses.*

ii) Repayment Period:

Based on the period for which the borrower require credit, it is divided into:

a) Short-Term Credit: *It is given to farmers for periods ranging from 6 to 18 months and is primarily meant to meet cultivation expenses viz., purchase of seed, fertilizer, pesticides and payment of wages to labourers. It serves as the working capital to operate the farm efficiently*
and is expected to be repaid at the time of harvesting / marketing of crops. It. should be repaid
in one instalment.

b) Medium-Term Credit: *Repayment is for the period of 2 to 5 years, It is for the purchase of*
pump-sets, farm machineries and implements, bullocks, dairy animals and to carry out minor improvement in the farm. It can be repaid either in half yearly or annual installments.
c) Long-Term Credit*: It is advanced for periods more than 5 years and extends even unto twenty five years against mortagage of immovable property for undertaking development works*
viz., sinking wells, purchase of tractor, and rnaking permanent improvements in the farm. It has
to be repaid in half-yearly or annual instalments.

iii) Security:

Credit is provided to farmers based on the security offered by them.

a) Farm Mortgage Credit*: It is secured against mortgage of land.*
b) Collateral Credit or Chattel Credit*: It is given against the security of livestock, crop or warehouse receipt.*
c) Personal Credit: *It is given based on the character and repaying capacity of the person and*
not on any tangible assets. In general, LT credit is usually advanced against security of land while MT and ST loans are sanctioned against personal and. collateral security.

iv) Generation of Surplus Funds:

Based on generation of surplus funds, credit can be classified as self-liquidating and non-self -liquidating credit.
a) Self Liquidating Credit*: In this case, loan amount gets absorbed in the production process-*
in one year or production period and the additional income generated is sufficient to repay the entire loan amount.