AGRICULTURAL CREDIT-MEANING, DEFINITION, NEED AND CLASSIFICATION

Definition

Credit is obtaining control over the use of money at the present time in exchange for a promise to repay it at some future time.

Credit is also defined as a device for facilitating the temporary transfer of purchasing power from those who have surpluses of it to those who are in need of it. Thus, credit involves a temporary transfer of wealth.

Agricultural Credit is the amount of investment funds made available for agricultural production from resources outside the farm sector.

Agricultural Finance is considered as separate field of study dealing with lending and borrowing by organizations and farmers.

Hopkin et al referred agricultural finance as the means of acquiring and control of assets, ownership by cash purchase or borrowing or leasing or custom-hiring.

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.

According to William G. Murray, agricultural finance is the economic study of borrowing of funds by farmers; of the organization and operation of farm lending agencies; and of society's interest in credit for agriculture.

Farm Finance is a branch of agricultural economics which deals with the provision and management of services of financial resources related to the individual farm units.

Farm finance can also be defined as the amount of funds obtained from off-farm sources for use on the farm, repayable in future with an interest agreed to either explicitly or implicitly.

Farm Finance

i. is not meant merely for more production but also to raise the productivity of farm resources;
ii. not a mere loan or advance , but it is an instrument to promote the well being of the farming community;
iii. is not just a science to manage the money, but is an applied science of allocating scarce resources to derive optimum output; and
iv. not a mere social obligation on the society; but it is a lever with backward and forward linkages to the economic development both at toe micro and macro level.

At macro level, farm finance may be defined as the study of impact of finance (extended to the farmers by the intermediaries) on agricultural sector and also on the economy as a whole. At micro level, farm finance may be defined as the study of these intermediaries who extend finance to the farming sector and obtain their loanable funds from financial markets.

Thus, farm finance should have the following features:

i. finance should be extended to farmers for farm activities;
ii. finance should stimulate tie productivities of farm resources resulting in higher economic returns for the investment;
iii. finance should promote economic development of farm households; and
iv. finance should be provided by an external agency for strengthening the backward and forward linkages with country's economic development.

Further, farmers and bankers view farm finance in different ways as detailed below:

Farmers	**Lending Agencies**
i) acquire finance for farm needs at proper time.	extend finance which can be easily collected.
ii) try to get finance at a reasonable cost	try to get a reasonable rate of return for capital.
iii) ensure that their own assets are not exposed to high risks.	ensure proner degree of liquidity of securities for safety.

Classification of Agricultural credit

Agricultural credit can be classifified 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 improverments in the farm. It has to be repaid in half-yearly or annual instalments.

iii) Secutirty: 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.

b) Non-Self Liquidating Credit: Here the resources acquired with the borrowed funds are not consumed in the production process during the project period. The investment is spread over a period of several years. The additional income generated in one year is not sufficient to repay the entire loan amount and hence the repayment is spread over to number of years.

v) Creditor or Lender wise Credit: Credit can be classified from the point of view of creditor.

a**) Non - Institutional Agencies:** They include money lenders, traders, commission agents, friends and relatives. This kind of loan is generally exploitative.

b) Institutional Agencies: They include co-operative's, commercial bank and regional rural bank.

vi) Number of Activities Served: Based on the number of activities for which amount the loan can be used, credit can be categorized into a) single purpose loan and b) composite loan.