AGRICULTURAL CREDIT

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Agricultural Credit:



- The credit needed by farmers to grow the agricultural sector is termed as Agricultural Credit.
- Credit is required in every type of business and agriculture is not exception to it. The need for agricultural credit, however, becomes all the more important when it moves from traditional agriculture to modern agriculture.

Difference between Agricultural Finance and Rural Credit



 There is a difference between agricultural credit and rural credit. Agricultural credit is linked with the growth of agriculture; whereas rural finance covers all the aspects of socio-economic life of rural area. It covers a wide variety of farm and non-farm productive activities such as agriculture, animal husbandry, fisheries forestry, small agro-based industries as well as development of physical and social infrastructure in the form of transport and communication, water and power education and health etc.

The following points reveals the need for agricultural credit

1. <u>Purchase of new inputs:</u>

The farmers need finance for the purchase of new inputs which include seeds, fertilizers, pesticides etc. if the seeds of high yielding varieties and other modern inputs are made available to the farmers, they can increase productivity not only of the land but also of labour.

2. Purchase of Implements:

Credit is required by the farmers for the purchase water pumping sets, tractors, threshers etc. the use of appropriate machinery in land will increase production by growing more than one crop on the same piece of land at the same time.



3. Better Management of Risk:

Credit enables the farmers to better to manage the risk of uncertainties of price. they can borrow money during bad years and pay back the loans during good years of crops.

4. Permanent Improvement in Land:

Credit also helps the farmers to make permanent improvements in land like sinking of wells, land reclamation, etc.

5. <u>Better marketing of Products:</u>

if timely credit is available to the farmers, they will not sell the produce immediately after the harvest is over. At that time the prices of agricultural goods are low in the market. Credit enables the farmers to withhold the agricultural surplus and sell it in the market when prices are high.



6. To Face Crisis:

The credit is required by the farmers to face crisis. The crisis can be caused by the failure of crop, draught or floods etc.

7. Purchase of Cattle:

The farmer needs credit to purchase cattle. Because the farmers mostly remain free after cultivating the farm, therefore they want to start off-farm business by purchasing cattle.

8. Payment of ancestor's Debt:

Most of the farmers remain in debt due to their ancestors. Therefore to retire the ancestors debt, the farmers take loan from banks and other sources.

9. Consumption Expenditures:

the farmers need loans for getting married their children etc on which they spend a lot.

10. Civil and Criminal Suits:

in order to civil and criminal suits, farmers need credit.

Types of Agricultural Credit:



Agriculture requires the following three types of credit.

1. Short-term Credit:

The short-term credit ranges upto one year. The farmers need short-term credit for meeting the working capital requirements of agriculture. For instance, they need short-term credit for the purchase of seeds, fertilizers, pesticides, bullocks and other casual expenses. The short-term credit is repaid after marketing the produce of the next crop.

2. Medium-Term Credit:

Medium-term Credit extends from 1 to 5 years. The farmers require medium-term credit for the purchase of cattle, purchase of implements, improvement in water course. The loan is obtained on the security of movable or immovable wealth of the farmers.



3. Long-Term Credit:

The duration of long-term credit exceeds 5 years. The farmers need long-term credit for making improvement of permanent nature in land such as sinking of tube wells, purchase of machinery and implements etc.

Sources Of Agricultural Credit



- · Credit in the farm sector is available from two sources
 - 1. Non-Institutional Sources
 - 2. Institutional Sources

1. Non-institutional Sources of Credit:



- 1. The major non-institutional sources of farm credit are
 - 1. Money lenders
 - 2. Friends
 - 3. Relatives
 - 4. Landlords
 - 5. Shopkeepers
 - 6. Commission agents

The Money Lenders, mostly nonmuslims were the main suppliers of loans to the farmers. However, their importance has decreased to a great extent now and the short-term credit needs of the farmers are met from commission agents, friends and relatives which supply roughly 50% of total rural borrowings.

The commission agents advance loans to the farmers for short-period. They force the farmers to sell the produce to them which generally is **purchased at low rates.**



The lenders of the informal sources (friends, relatives etc) have certain advantages over the formal credit sources.

- The informal lenders usually know the borrowers personally.
- They require little security for advancing loans
- The loans are provided for consumption as well as production purposes.
- The lenders are approachable at all times.
- They are also lenient in rescheduling loans.

2. Institutional Sources of Credit:

The major institutional sources of farm credit are

- a. Agricultural Development Bank
- b. Commercial Banks
- c. Taccavi Loans

a. Agricultural Development Bank:

the agricultural development bank is an important source for the supply of credit to agricultural sector. This bank provides short, medium and long term loans for farm and off-farm activities. The bank has the following windows

i. Development Loans

- ii. Production Loans
- iii. Agri-business Loans
- iv. Off-farm income generative activities loans.



b. Commercial Banks:

commercial banks are providing loans to the farmers for meeting their short and medium term requirements. The loans are advanced to the farmers against the security of land, crop, fixed assets and even on personal security.

c. Taccavi Loans:

Taccavi loans are handled by the Provincial Revenue Department. Necessary funds are allocated for different areas each year in the provincial budgets. The Taccavi loans are primarily given to the farmers for meeting emergencies such as flood, earthquake, famine etc. the farmers take these advances in the spirit of gift or relief given in calamity and are not serious in repaying them.

Problems Of Agricultural Credit



The shortage of rural credit both in quantitative and qualitative terms continues to be a limiting factor in the modernization and growth of production in agriculture. The major problems which are being met by the farmers in the receipts of agricultural credit from the institutional sources are summarized below:

1. Less Flow of Credit to Small Farmers:

There are millions of small farmers throughout the country. The gain has reached more to the big landlords. It is therefore, an urgent need that the credit should reach the small farmers who are the backbone of agricultural industry.

2. Complicated Procedure for Advancing Loans:

the procedure for advancing loans by institutional sources is quite complicated. The loans are advanced to the farmers on the basis of pass books which contain the details of land owned by the farmers. The procedure is quite complicated.



3. Delay in the disbursement of Credit:

the procedure involved for advancing loans to the farmers is cumbersome. Who-so-ever succeeds in completing the documents is entitled to receive loans. It has been observed that the disbursement of credit is delayed even after it has been approved. It is a serious problem which the farmers are facing these days.

4. High Interest Rate:

The interest charted by the various institutions on farm credit is high. The low income farmers can not bear it. As regards the interest-free loans, they are not reaching the small deserving farmers.

5. Amount of bad debts is increasing:

The loans advanced particularly to the big landlords are not being repaid to the institutions. Since the big landlords have political influence, they, therefore, manage to get them written off.



- The credit agencies mostly do not take the risk of advancing loans to the farmers because heavy rains and droughts etc can destroy the crops and thus the repayment of loans may become difficult for the farmers.
- Due to unstable prices of the agricultural products, there is instability in the income of the agriculturalists. The credit institutions, therefore, hesitate to finance the farmers.
- Most of the agriculturists who live on subsistence farm units do not have the adequate information of the credit institutions which supply loans to the farmers.
- The villagers do not know how to keep the records of the loans which is a necessary element of proper credit analysis.