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Classification of Agriculatural Credit In Ysr District: A Case Study

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ABSTRACT

Agriculture is the first culture that man learnt to practice as a means of living and a way However; with the advancement of knowledge, culture and civilization the place, pattern practices and potentialities of agriculture have been continually undergoing a process of transformation. From a mere primitive way of life and a source of livelihood, it has come to be realized as a commercialized activity and profitable business proposition and a vital Instrument of progress. In India the vital role of agriculture arises out of the position the agrarian sector occupies in the overall economy of the country. Agriculture is the largest sector of the economic activity and has a crucial role to play in the country's economic development by providing food and raw material, employment to a very large proportion of population, capital for its own development and surpluses for the national economic development. Thus the importance of agriculture despite rapid industrialization has not in any way diminished. It has become necessary not only to achieve self-sufficiency in mattes of food and agricultural raw-material, but to highly modernize agriculture so as to throw up surpluses to be made available for investment in the other sectors of economy as well1. The bulk of the loans for agriculture in the developing countries originates in the informal sector and probably is not less than five times the outstanding of institutional credit. The percentage of farmers receiving institutional credit varies widely in different parts of the developing world. Imperfections in the agricultural credit market are ubiquitous and more pronounced. Large farmers have been the main beneficiaries of institutional credit. It is common to find 70 to 80 percent of small farmers in the developing world with virtually no access to such credit. Further, the supply of credit among different categories of farmers in heavily skewed, institutionalization of agricultural credit is usually necessary through not sufficient, condition for an increase in agricultural productivity and income this applies especially to small farmers who have neither savings nor ready access to institutional sources. The policy makers in almost all developing countries have realized the role of institutional credit in agricultural and rural development.

KEYWORDS : Agricultural Credit – Classification:

1. INTRODUCTION

Agriculture is the first culture that man learnt to practice as a means of living and a way However; with the advancement of knowledge, culture and civilization the place, pattern practices and potentialities of agriculture have been continually undergoing a process of transformation. From a mere primitive way of life and a source of livelihood, it has come to be realized as a commercialized activity and profitable business proposition and a vital Instrument of progress. In India the vital role of agriculture arises out of the position the agrarian sector occupies in the overall economy of the country. Agriculture is the largest sector of the economic activity and has a crucial role to play in the country's economic development by providing food and raw material, employment to a very large proportion of population, capital for its own development and surpluses for the national economic development. Thus the importance of agriculture despite rapid industrialization has not in any way diminished. It has become necessary not only to achieve self-sufficiency in mattes of food and agricultural raw-material, but to highly modernize agriculture so as to throw up surpluses to be made available for investment in the other sectors of economy as well[1].

The bulk of the loans for agriculture in the developing countries originates in the informal sector and probably is not less than five times the outstanding of institutional credit. The percentage of farmers receiving institutional credit varies widely in different parts of the developing world. Imperfections in the agricultural credit market are ubiquitous and more pronounced. Large farmers have been the main beneficiaries of institutional credit. It is common to find 70 to 80 percent of small farmers in the developing world with virtually no access to such credit. Further, the supply of credit among different categories of farmers in heavily skewed, institutionalization of agricultural credit is usually necessary through not sufficient, condition for an increase in agricultural productivity and income this applies especially to small farmers who have neither savings nor ready access to institutional sources. The policy makers in almost all developing countries have realized the role of institutional credit in agricultural and rural development.

2. DEMANDS FOR AGRICULTURAL CREDIT

Credit is the temporary transfer of purchasing power. It is the external source of capital for investment. There is a strong though often latest, demand for agricultural credit in the developing world. It must be stressed that credit, though often necessary, is only one instrument for promoting agricultural development. In general, the demand for credit depends on the level of economic development of a country and the structure of its agricultural economy[2].

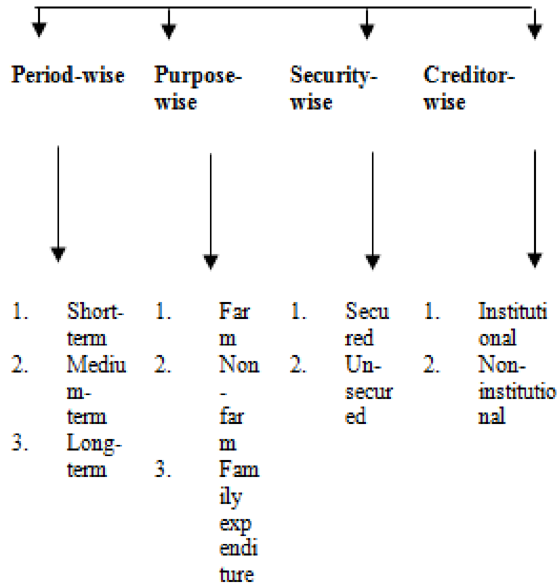
Provision of adequate institutional credit to support the modern technology and augmentation of agricultural productivity and production is the basic aim of the country's agricultural credit policy[3]. All production activities require for their sustenance some degree of credit, the amount and duration of which depends on the length of the production cycle[4]. So all rural families engaged in production activities need to save some at one time and may borrow at other times. Financial institutions in this regard can help the potential savers and borrow at other times. Financial institutions in this regard can help the potential savers and borrowers by adjusting to their different behavior and this process will increase the community's investments and productivity[5]. Credit could play a major role in preventing the rather extreme measures of asset depletion and pauperization adopted by the farmers in drought years[6]. Removal of regional imbalances in the matter of credit supply is another important objective which is receiving attention from the government.

The programme for achieving higher levels of productivity and production calls for a market increase in the volume of both production and investment credit with a large share going to the weaker sections and backward areas. As the majority of the farmers in the country are small and marginal farmers have meager resources, there is a need for such credit policies and programmes as would enable them to make step-by-step progress towards scientific and intensive use of their limited land resources by a greater input of both labour and capital[7]. To facilitate understanding of the credit needs of the farmers, it would be fruitful to break up the total demand for credit of cultivator households for major purposes. The basic purposes for which farmers borrow have been classified into four types of credit and the classification is explained below.

3 CLASSIFICATION OF AGRICULTURAL CREDIT

Generally, credit for agriculture is available as direct credit and indirect credit. In the direct credit, finance is provided directly to the farmers for productive purposes such as crop production, land development, irrigation, purchase of implements, machinery, equipment, development of agricultural allied activities like dairy, sheep rearing, poultry, fisheries, development of plantations like tea, coffee, rubber, coconut, cashew nut, etc., While in the indirect credit, finance is provided through the institutions involved in the supply of production inputs and other relative services of agriculture. Agricultural credit can be classified into indifferent ways as per the requirement and period of credit granted. The classification of agricultural credit is presented in Chart 1.1.

Chart 1.1
Classification of Agricultural Credit



A. PERIOD – WISE CLASSIFICATION

Period or duration is an important basis for classification of agricultural credit. Based on the period, credit needs of the farmers may be classified as short-term, medium-term and long-term credit.

(i) Short-Term Credit

Short-term or seasonal credit is that which is granted for the purpose of providing working capital requirements of the farmers. Generally, farmers are required to run their farms efficiently to obtain crop in the best possible manner. They hold credit upto the sale of harvest. The period for which this type of credit is provided generally ranges from 6 moths to15 months or it can exceed more. According to the All India Rural Credit Review Committee, the short-term credit is lump-sum credit facility which is provided to fill up the gap in outlay which cannot be met by the own resources of farmers during the period between two harvests[8]. The various purposes for which short-term credit is provided are: purchases of seeds/ fertilizers / insecticides, hiring of labour, hire charges of agricultural machineries, payments of electricity bills, tax on land, godown charges etc. These loans are disbursed through Primary Agricultural Credit Societies, Commercial Banks and Regional Rural Banks. In such case, the security is accepted in the form of anticipated crop production and credit is provided accordingly. While the consumption loans sanctioned on the basis of personal security of the borrowers.

(ii) Medium-term Credit

Medium - term Credit is provided to the farmers for the purposes like land development, purchase of implements, machinery, livestock, conversion of cultivation system etc. This credit is provided for more than 15 months but not exceeding 5 years. The medium-term credit is classified into two categories. The first category belongs to maintenance or replacement of existing production assets i.e., normal credit requirements, while the second classification is concerned with new investment for improving the productive efficiency of the farm i.e, special medium-term loans[9]. The medium-term credit are repaid in half-yearly or annual installments.

(iii) Long-Term Credit

Generally, farmers require all types of credit at various stages of farming. But the need for long-term finance is more pressing. As stand by the RBI in its preliminary reports, long-term credit is more important and if any effective steps are taken to make the agriculturist credit-worthy, this is the first problem which is to be tackled[10]. The long-term loans are granted for a period of more than 5 years and upto 10 years. In some cases, it may be granted for a period upto 20 years[11]. Various uses of long-term loans are purchase of farm or buying of additional land, construction of buildings for farm operations, provision of drainage, reclamation of land and other improvements. The long-term loans are re-paid in annual installments.

B. PURPOSE-WISE CLASSIFICATION

According to the Reserve Bank's classification[12] agricultural credit may be classified into three types viz., credit for farm activities, credit for non-farm activities and credit for family expenditure.

(i) Farm credit

This type of credit is provided for purchase of seeds, fertilizers insecticides, hiring of labour, land improvements by irrigation and drainage, purchase of agricultural implements, machinery and livestock, construction of farm houses, cattle sheds, tanks and embankments, laying of orchards etc. In other words, this credit is provided to support the working capital expenses on farm business.

(ii) Non-farm Credit

Such credit is provided to meet the working capital expenses on non-farm business such as repair of production and transport equipment and furniture, purchase / construction and repair of buildings, purchase of non-farm equipment etc.,

(iii) Credit for Family Expenditure

Such credit is required to meet the household expenditure like clothing, education, medicines, expenses regarding marriages, death ceremonies and other social events in family, irrigation and payment of old debts etc. Though these types of loans are meant for personal purpose, the cultivators may borrow by showing the agricultural deeds and are repaid after selling of their produce.

C. SECURITY-WISE CLASSIFICATION

According to this type of classification, the agricultural credit may be categorised as secured credit un-secured credit. It is based on the type of security offered by the farmer while obtaining the credit.

(i) Secured Credit

It is also known as 'Farm Mortgage Credit and Chalttel or Collateral Credit'. In this type, credit is available against the pledge of some tangible property of the borrower. In fact, borrowers offer livestock, produced items, warehouse receipts, shares, bonds, and insurance policies etc., as securities.

(ii) Un-secured Credit

Un-secured credit is granted on personal security of the borrower. It is provided on the promissory or personal notes of the borrower with or without another guarantee. Naturally, loans of this type are available through informal sectors such as moneylenders.

D. CREDITOR–WISE CLASSIFICATION

The agricultural credit may be classified on the basis of creditor also. There are two main sources of credit viz., institutional and non – institutional credit.

4. SUPPLY OF CREDIT

The present system of agricultural credit in India is supplied through a plurality of agencies usually termed as institutional and non-institutional. The non-institutional sector consists mainly of the landlords, professional and agricultural moneylenders, commission agents, traders, relatives and friends etc. The institutional sector mainly comprise of Co-operatives, Commercial Banks, Regional Rural Banks and government[13].

5. ROLE OF NON-INSTITUTIONAL AGENCIES

Informal finance and self finance prevail beyond the frontier of the formal financial system. Informal finance consists of borrowing and lending among individuals and firms that are not registered with the government as financial intermediaries and are not subject to government supervision. Informal finance is tremendously diverse and is generally conducted within border relationships, starting from kinship and extending outward to friendship and customary social bonds and beyond to include credit associated with commercial transactions and land tenure arrangements[14]. It is very difficult to give a clear cut logical definition of the sector which is better identified by its dominant characteristics such as ease of entry and exist in formality of transactions and smallness of scale[15].

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