SUBJECT: AGRICULTURAL SCIENCE

TOPIC: AGRICULTURAL FINANACING

CLASS: SS3

WEEK: 4 AND 5

TERM: 1ST TERM

MEANING OF AGRICULTUAL FINANCE

Agricultural can be defined as the flow of money into agricultural activities. The term ‘flow’ in the definition refers to how farmers get money and how it is expended to achieve specified goals.it is also defined as those activities engaged in to generate funds (money) for the running of agricultural activities.

IMPORTANCES OF AGRICUTURAL FINANCE

The following are some of the importance of agricultural finance

1. Agricultural finance helps to identify all sources of revenue which will be utilized to undertake day to day farming activities.
2. It raises income for financing agricultural expenditures.
3. It helps farmers to know the area of business that will bring more profits
4. It also assists farmers to manage all the resources involved in agricultural business.
5. It enables farmers to ascertain the profits and losses of the business.

Sources of farm financing

There are numerous ways by which farmers can secure funds to run the day-day activities of their business operation. Some of these existing farmers and other people who are preparing to become farmers in the nearest future.

1. Personal savings: this is one of the main sources of farm financing. Personal saving is the best best source of farm financing because it does not attract any interest which other sources attracts.
2. Commercial banks: commercial banks are financial institution owned and controlled by an individual or a group of people with the aim of making profits.it is another source of farm financing opened to the agricultural sector. Farmers with required collateral securities can easily secure funds and loan from commercial banks.
3. Cooperative societies: these are voluntary organization formed by people with common goals. They pooled their resources together in order to improve member’s welfare .cooperative societies provide funds for farmers to carry their farm operations. Even at times, some farmers come together and form agricultural cooperative societies with the aim of proving money for themselves.

4. Government: the three of government federal, state, and local government are sources of farm financing. Each of these levels of government is mandated by law to allocate certain amount of their total revenue to finance agriculture.
5. Non-governmental organization: as the name implies, these are organization formed by people not in government with the sole aim of improving the welfare of citizens. The NGOs usually render assistance to farmers by giving them funds in form of loan to carry out their operations. They do this in order to boost farmer local output which will later bring increase in standard of living of the citizens.

CLASSES OF CREDIT

Credit may be defined as a situation where by sellers allow buyers to take possession of goods and services and pay later.it usually business but turn-over of the business but at times sends the business to 'early grave' if the owner of the business does not minimize the level of debts.

Credit can be classified into the following:

i. Classification based on length of period.
ii. Classification based on sources of credit.
iii. Classification based on liquidity.

Having enumerated the classification of credit let us see their meanings.

CLASSIFICATION BASED ON LENGTH OF PERIOD

Classification of credit based on length of period is also divided into three main types viz.

(a). Medium-term credit

(b). short- term credit

(c).long-term credit

(A) Medium term credit refers to the type of credit where the seller allow the buyers to buy now and pay within two years (2 years)

(B) Short term credit is another classification of credit based on length of period. It is a credit term where a seller allows the buyer to take possession of goods and services without payment but pays within a year.

(C) Long –term credit refers to a type of credit whereby the seller allows the buyers to buy now and pay for more than two years.

PROBLEMS FACED BY FARMERS IN PROCURING AGRIC-CREDIT

The farmers need to procure raw materials (seeds) or machines like tractor on credit and pay later due to their lack of purchasing power which is referred to as inability to pay. But it is very unfortunate that they cannot do so due to some obstacles.

These obstacles are:

i. Inadequate collateral security
This is one the main problems encountered by farmers in getting agric-credit. There are no financial institutions that will give out loans without collecting collateral securities like land, house, etc. from borrowers. Many farmers could not produce this collateral security and as a result, they are denied the opportunity to secure funds from financial institutions.
ii. High interest rate
Some farmers have the ability to provide collateral security like land but still encountered the problem of high interest rate. Financial institution usually charge high interest on loans given to customers with the aim of making profits.
iii. Government policy
This is another problem facing farmers in procuring agric-credit.the government of the country may decide not provide funds for the agricultural sector due to some reason. For instance, a country with critical war problems spends no penny on agriculture but on importation of weapon to stop the war.

PROBLEMS FACED BY INSTITUTION IN GRANTING LOANS TO FARMERS

1. Inadequate record keeping
2. Problems of loan recovery
3. Problem bad debts
4. Problems of non-lucrative business

CAPITAL MARKET

MEANING OF CAPITAL MARKET

Capital market is the institution that deals with medium and long term for agric- businesses. Capital market is made up of the following:

i. Insurance companies
ii. Development banks
iii. Issuing houses
iv. Pension fund managers
v. Investment exchange
vi. Stock exchange
vii. Finance corporations

Sources of funds for the capital market

1. stock exchange
2. merchant banks
3. insurance companies