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Contribution of agricultural credit to agricultural development

In any country, agricultural development requires adequate education and technical knowledge in agriculture, an efficient marketing system and adequate agricultural credit. Lack of any one of these may result in serious bottlenecks.

Agricultural credit can make a maximum contribution to agricultural development if it is used to finance improved technology. Credit for traditional primitive agriculture has little or no impact on agricultural development.

Financing the capital requirements in agriculture

Because of advances in technology, inflationary tendencies and increased freedom of management by operators, the capital needs of individual farms have been increasing.

With respect to short- and intermediate-term credit, it is a sound policy to relate the term and the amount of the loan to the useful life and net productive contribution of the item being financed.

Some experiences in dealing with long-term credit in different countries include loans of up to sixty years on owner-operated farms, state ownership of land allocated to operators by means of ninety-eight-year inherited leases, a land-rental system of privately owned land which provides security and satisfactory social status and continuing or 'perpetual' mortgages.

Financial management

New technology and the complexity of farm management make it more difficult for farmers and credit agencies to assess the soundness of

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capital and credit needs and uses. Production plans prepared with the help of trained extension and financial advisers are, therefore, necessary.

Flexible credit arrangements

Traditionally credit has been made available on the basis of security. In progressive credit systems, the emphasis is shifting from security to repayment capacity. Even under the most flexible credit arrangements it is necessary to ensure that loans are made for purposes which contribute to increased repaying capacity.

In some countries, there is more emphasis on *programmes* of financing for individual farmers (budgeted loans). A credit line is established and credit is drawn when needed. Such credit, sometimes in kind, can ensure the provision of the right fertilizer, seed, &c., as well as ensuring that the loan is used for the purpose intended.

Financing the shift of people out of agriculture

Reorganization of agriculture on a higher technological level means that some people must leave agriculture. It may involve financing rural industries to provide employment for those who leave farming. The question of shifting people out of agriculture is one of human mobility. Education, particularly of young people, is an effective means of providing such mobility.

Supervised credit

Supervised credit involves farm-management assistance along with credit. A well-trained staff supported by research and extension services is needed. Such programmes tend to be very costly since one supervisor can adequately service only a limited number of farmers. Only farmers who are credit-worthy and potentially viable should be considered. However, it may not be possible to provide supervised credit to all eligible farmers in a country due to limitation of men and money.

Market financing

In many countries, dealers in farm supplies and farm product marketing agencies provide substantial amounts of credit for production and marketing. Absence of such marketing institutions would nullify the effects of a sound farm credit system. Credit from the marketing agencies needs to be supplemented by alternative normal sources to ensure financing on a competitive basis.

Insurance as it affects credit

Lack of insurance facilities sometimes seriously restricts farm credit. Principal types of such insurance are:

1. Credit insurance or guaranteed credit.
2. Deposit and savings insurance.
3. Life insurance on the borrower.
4. Property, crop and livestock insurance.

Training of personnel for credit administration

There is a serious shortage of trained personnel for credit administration. The needs can be met only by using all available facilities. Courses of differing duration and appropriate content are required. Of interest in this connexion is the recently established Agricultural Finance Center at Ohio State University, Colombus, Ohio, U.S.A. The Center's responsibilities include carrying out research and training in agricultural finance, establishing a library in this field and publishing farm-credit reference lists on a world-wide basis.