## 1.0 Introduction

### 1.1 Preamble

The study of **"Agricultural Finance"** varies in scope from the "**micro concept",** which involves the financing and liquidity services provision through credit, to the **"macro concept",** such as the examination of the agricultural sector's role in the entire economy. Both concepts are important except that one is a subset of the other. For an instance, the study of a farm operator's behaviour at the micro level, can be used as the basis to understand the determinants of macro-economic outcomes in the agricultural sector. In addition, understanding the effects of changes in the nation's economic and financial policies as it may affect agriculture in relation to other sectors of the economy, is quite relevant with the advent of increasing use of manufactured farm inputs, external financing and off-farm employment of farm family members.

### 1.2 Concepts of Agricultural Finance

**"Agricultural Finance",** according to Tandon and Dhondeyal (1991), could be considered as a branch of Agricultural Economics that deals with the provision and management of Bank services and financial resources related to individual farm units.

**"Agricultural Finance"** deals with the financial,(micro and macro aspects of a farm business in an economy.

**"Agricultural Finance"** is the economic study of the acquisition and use of capital in agriculture. So it deals with the demand for, and supply of funds in the agricultural sector of the economy (W.F Lee, 1980)

**"Agricultural Finance"** is the study of financing and liquidity services as well as credit provision to farm Borrowers.

**"Agricultural Finance"** is the study of financial intermediaries who provide loanable funds for agricultural production and that of financial markets in which these intermediaries obtain their loanable funds (Penson and Lins, 1990).

The study could be broadened to mean the analysis of financial structure of Agriculture and the wealth position of farm owners.

Broadened further, **"Agricultural Finance"** involves the study of all economic and financial interface between agriculture and the rest of the macro economy ; including the effects that changes in the national economic policies could have on the economic performance of agriculture as well as the financial positions of individual farm families.

**1.3 Scope of Agricultural Finance**

The study of **"Agricultural Finance"** varies in scope from the "**micro concept"** to **"macro concept.** From the points of view of both concepts, aspects of the study under individual farm units include:

**1.3.1(a) Financial Management of Farms**

Has to do with :

(i) **Decision making** (e.g. decision to invest on afarm machinery)

* Investment decisions
*Financing decisions
*Dividend decisions

**Notes: These decisions together determines the rate at which any farm business can grow over time.**

**None of the decisions could be made independent of the other.**

Effective decision making however requires a comprehensive knowledge of financial Accounting system in order to :

(i) Identify the extent and the correct time of financing that could facilitate production and marketing plans;

(ii) Provide information on the farm's financial position as well as the efficiency and profitability of farm operations

**(b) Organisation of Financial Accounting system**

Important for sound financial Management . Farm operator would need the knowledge keeping financial records and Accounts like the Balance Sheet, Income Statement, Cash flow Statement, Statement of changes in ownership farms and investments.

**(c) Organisation and Growth of Farms**

Involves the :

(i) Identification of the Input-output combinations for maximization of goals;

(ii) Determination of size and rate of growth as well as the rate of growth and expansion that will justify financial investments in the agricultural enterprise(s);

(iii) Study and understanding of determinants of the growth rate, namely

| **Internal factors** **(Can be controlled by the Farm Operator)** | **External factors** **(Beyond the control of the Farm Operator)** |
|---|---|
| *Rationing of Credit use | * External Credit rationing |
| *Policies on Capital structure (Equity/Liability structure) | *Taxation Policy |
| *Policy made on the use of net farm Income for Consumption and/or non-farm Investments) | *Government Regulations |
| | * Government policies affecting Agric. & Financing |

**(d) Investment and Financing**

Involves the study of the:

(i) Concepts of Time value of Money, Present worth of future flow of Income and future value of present stream of Income through (Discounting and Compounding methods respectively);

(ii) Project planning and appraisal for investment decision making;

(iii) Criteria used for Investment selection: Economic, financial technical, social analysis of farm business etc.

(iv) Determination of farm business and financial risks

(v) Legal considerations in investment and financing decisions;

(vi) Issues relating to Taxation like handling and management of after–tax profits, Tax Laws etc.

**1.3.2 Agricultural finance study at Aggregate/Macro level**

**1.3.2(a)** Study of Sectoral financial Statements

**1.3.2.(b) Study of the Aggregate Investment and financing Behaviours**

Has to do with the:

* Determination of Investment and financing behaviours of farms;
* Demand for Money and non-money Assets;
* Appreciable Business /farm Assets
* Land for agric. Purposes
* Farm Inventories etc

Provide the basis for understanding the effects of policies relating to growth & financial Positions of farms

**1.3.2 (c) National Economic policy Instruments**

* Interest rate ceiling;
* Concessionary rates of Interest for agric. Loans;
* Policies on microcredit financing through the Micro-finance Institutions (MFIs) etc.

**1.3.2 (d) Effects of changes in agricultural finance policies**

**1.3.2 (e) Study of Financial Intermediaries serving Agricultural Sector 9including sources of Agricultural finance**