

Utilization of co-operative credit in Chitradurga district of Karnataka state

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Received : 03.09.2012; Revised : 04.01.2013; Accepted : 03.02.2013

ABSTRACT

Institutional credit is very much important to any economic sector in general and the agriculture in particular. Credit enables the farmers to purchase fertilizers, seeds and pesticides etc., for raising and harvesting the agricultural commodities. Institutional credit got importance due to the farmers' meagre owned funds that act as limiting factor to finance their agricultural operations. Proper utilization of credit is intended to generate resources; the resources so generated by the borrowers through the application of credit should not drain off without being productively utilized. Such regenerated resources should flow back to the banking system not only towards the repayment of credit but also as deposits, which in turn reaffirms the financial soundness of the banks. All institutional agencies which are giving credit to the farming community insist on the end use of credit for which it is provided. It is often said that if the loan borrowed is properly utilized, it will repay itself. On the other hand, if they use it for unproductive purposes, it will not only result in poor agricultural production but also adversely affects the repaying capacity of the loanee farmers. Further it results in aggravation of overdue problem. Besides this, the diversion of credit leads to the inflationary pressure that badly affects the standard of living of the masses. It is in this context that end use of credit assumes significance on which the economic well-being of the banks and the farmers largely depend.

KEY WORDS : Utilization, Co-operative, Credit, Loan

How to cite this paper : Boraiah, G.B. (2013). Utilization of co-operative credit in Chitradurga district of Karnataka state. *Internat. J. Com. & Bus. Manage.* 6(1) : 5-8.

This article is dedicated to the investigation of the utilization pattern of cooperative credit in Chitradurga district by the loanee farmers to participate themselves in the participatory development process.

Mahatma Gandhi frequently pointed out, "Gram Swaraj is the pathway to Purna Swaraj" (Swaminathan, 2012). Gandhian idea on marrying brain and brawn in order to achieve rural regeneration is very important one and to achieve that goal cooperatives are best suited. Because cooperatives in our country are the largest and the widest spread net work of institutions among the 3rd sector alternatives. In terms of geographical spread, cooperatives are the only institutions that have access to all the villages of the country with their

long history; they have intruded in to all walks of life (Thamilarasan, 2010).

Institutional credit is very much important to any economic sector in general and the agriculture in particular. Credit enables the farmers to purchase fertilizers, seeds and pesticides etc. for raising and harvesting the agricultural commodities. Institutional credit got importance due to the farmers' meagre owned funds that act as limiting factor to finance their agricultural operations. Proper utilization of credit is intended to generate resources; the resources so generated by the borrowers through the application of credit should not drain off without being productively utilized. Such regenerated resources should flow back to the banking system not only towards the repayment of credit but also as deposits, which in turn reaffirms the financial soundness of the banks. All institutional agencies which are giving credit to the farming community insist on the end use of credit for which it is

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provided. It is often said that if the loan borrowed is properly utilized, it will repay itself. On the other hand, if they use it for unproductive purposes, it will not only result in poor agricultural production but will also adversely affects the repaying capacity of the loanee farmers. Further, it would results in aggravation of overdue problem. Besides this, the diversion of credit leads to inflationary pressure that badly affects the standard of living of the masses. It is in this context the end use of credit assumes significance on which the economic well-being of the banks and the farmers largely depend.

Objectives of the study:

- To know the importance of utilization of cooperative credit in agriculture.
- To assess the extent of utilization of cooperative credit by the loanee farmers.

Hypothesis:

Crop loan utilization by loanee farmers is improper.

METHODOLOGY

For the sake of study, two talukas namely Challakere and Molakalmuru were selected depending on the availability of irrigational facilities. Then, from each taluka, 5 PACS (Primary agricultural cooperative credit societies) were randomly chosen.

In the second stage total 300 loanee farmers (30 farmers from each of the 10 PACS) for in depth analyses of utilization pattern were selected randomly.

Percentages, ratios and inferential technic-Chi square test have been applied to arrive at inferences.

ANALYSIS AND DISCUSSION

The findings of the present study as well as relevant discussion have been summarized under following heads:

Utilization pattern of cooperative credit:

Table 1 shows the utilization pattern of loan for

productive as well as non-productive purposes by the loanee farmers. It is evident that 73.3 per cent of the loanee farmers in the more irrigational facility area used 90.8 per cent of the total loan for the productive purposes. The utilization pattern of loan is not consistent among various categories of farmers for variation is observed in different categories of farmers.

It is very clear that, 96 per cent of the loan was used by the large farmers for productive purposes. Whereas, 75 per cent was used in case of marginal farmers, the medium and small farmers utilized 92 and 79 per cent, respectively for productive purposes. It shows us that the farmers with larger size of land holdings are more cautious about the proper utilization of loan for productive purposes. On the other hand, it was observed that 9.2 per cent of the loan amount was diverted by all the category of farmers for non-productive activities. This diversion was not uniform among different categories of farmers. More diversion is seen in the marginal farmers category (25 %) followed by small (21%), medium (8%) and large (4%) farmers, respectively. This indicates us that higher the size of landholdings lesser will be the diversion of loan for unproductive purposes. The marginal and small farmers might have used portion of the loan borrowed for domestic purposes due to their weak financial position.

The Chi-square test of the independence of attributes was statistically proved significant at 5 per cent level. Since the calculated value 11.48 is greater than the χ^2 table value (7.82), the hypothesis "Crop loan utilization by loanee farmers is improper" is not accepted. Hence, the farmers used major share of the loan amount for the productive purposes in more irrigational facility area. It is very clear from the analysis of Table 1 that around 73 per cent of the farmers in the more irrigational facility area have used 90.8 per cent of the total loan sanctioned for productive purposes. Because the agricultural activities of the farmers in more irrigational facility area was more as compared to less irrigational facility area. The extent of diversion by all the categories of farmers in this area was only 9.2 per cent of the total loan sanctioned in the more irrigational facility area.

Table 2 reveals that 57.3 per cent of the farmers utilized

Table 1 : Utilization of credit by different categories of farmers in more irrigational facilities area (Amount in Rs.)						
Category of farmers	No. of borrowers	Total credit disbursed	Fully utilized for said purposes		Not fully utilized for said purposes	
			No. of farmers	Amount	No. of farmers	Amount
Marginal	44(100)	1,25,130	25 (56.8)	93,847.50 (75)	19 (43.2)	31,282.5 (25)
Small	50(100)	3,63,780	38 (76)	2,87,386 (79)	12 (24)	76,394 (21)
Medium	36(100)	6,66,000	28 (77.8)	6,12,720 (92)	08 (22.2)	53,280 (08)
Large	20(100)	10,39,680	19 (95)	9,98,093 (96)	01 (5)	41,587 (04)
Total	150(100)	21,94,590	110 (73.3)	19,92,046.50 (90.8)	40 (26.7)	2,02,543.5 (9.2)
Chi-square test		$\chi^2 = 11.48$: tabulated value $\chi^2(0.05)$ for 3d.f=7.82				
Remarks of χ^2 value		Significant				

Note: the figures in parenthesis show the percentages to the respective totals

Source: Field survey.

Table 2 : Utilization of credit by different categories of farmers in less irrigational facilities area (Amount in Rupees)

Category of farmers	No. of borrowers	Total credit disbursed	Fully utilized for said purpose		Not fully utilized for said purposes	
			No. of farmers	Amount	No. of farmers	Amount
Marginal farmers	50(100)	2,97,900	27(54)	1,63,845(55)	23(46)	1,34,055 (45)
Small farmers	53(100)	6,22,200	32(60)	4,91,538(79)	21(40)	1,30,662 (21)
Medium farmers	39(100)	6,59,205	20(51)	5,33,956(81)	19(49)	1,25,249 (19)
Large farmers	08(100)	7,65,450	07(87.5)	5,05,197(66)	01(12.5)	2,60,253 (34)
Total	150(100)	23,44,755	86 (57.3)	1694536(72.3)	64(42.7)	6,50,219 (27.7)
Chi-square test		$X^2 = 3.99$: The tabulated value $x^2(0.05)$ for 3d.f.=7.82				
Remarks of X^2 value		Non significant				

Note: Figures in the brackets shown as the percentage to the respective totals.

Source: Field survey.

72.3 per cent of total credit disbursed for productive purposes in the less irrigational facility area. This utilization varied among the different categories of farmers. It is evident from the analysis of Table 2 that the small and medium farmers have utilized the credit for agricultural purposes to the tune of 79 and 81 per cent, respectively. The marginal and large farmers used relatively less amount of agricultural credit for productive purposes *i.e.* 55 and 66 per cent, respectively.

Table 2 also reveals that 27.7 per cent of loan was misutilised by 42.7 per cent of the farmers. The diversion of loan was more as compared to the more irrigational facilities area. More percentage of diversion of loan was found in marginal farmers and large farmers category because the percentage of diversion was 45 and 34 per cent, respectively. But the diversion rate was relatively lesser in case of small and medium size farmers. The reasons for diversion in marginal farmers category is that they had to look after their basic minimum needs out of their meagre resources which in turn were insufficient. Whereas, in case of large farmers, the reason is quite different that they will fully misutilize the credit in anticipation of loan waiver schemes by the Governments. This phenomenon has been common between the decades 1980 and 2010. Unscientific pricing system and natural calamities have also contributed substantially in this direction.

The Chi-square test of significance of the end-use of loan in the less irrigational facility area was statistically proved insignificant at 5 per cent level. Since the calculated value 3.99 is lesser than the table value 7.82, the hypothesis that the "crop loan utilization by the loanee farmers is improper" is accepted. It is evident from Table 2 that 57.3 per cent of the farmers utilized only 72.3 per cent of loan for the purposes for which the loan was granted. The rest of the amount was misutilized by the loanee farmers. It is conclude that the farmers have not used the entire amount of credit for the purposes for which it was granted. The utilization of loan for productive purposes in the less irrigational facilities area was relatively less as compared to the more irrigational facilities area.

The common reasons for misutilization of cooperative credit are as follows (Verma *et al.*, 2006):

- Lack of proper training, marketing, transportation facilities, technology, education etc.,
- Credit to the poor is counter-productive as it imposes the burden of loans on the poor who have no repaying capacity.
- The consumption and social needs are so pressing that any loan will be diverted from production requirements.
- Chronic poverty has crippling effect on the mind and aspirations of the poor and this shackles the poor to lower levels of living.
- The rural power-structure is too powerful and entrenched to allow such a credit programme for poverty alleviation to succeed.
- By encouraging the poor to take up independent professions, a shortage in wage labour will be created. This results in higher wages, increasing the cost of agricultural production.
- Credit programmes for the poor will be highly inflationary and cause imbalances in the rural economy.
- Credit helps the poor only temporarily and does not achieve an equitable restructuring of production relations.
- Success of credit programmes depend on wider national economic policy issues. If the terms of trade for food and cash crops between rural and urban areas are based against the rural poor, credit programmes will have limited impact.

Apart from above reasons the irregular and scanty rainfall, inadequacy of credit, increased consumption requirements and willful defaulting attitude of the farming community have contributing lot in misutilization of productive cooperative credit in both the areas. All these things have resulted in mounting overdue position of the cooperatives in Chitradurga district.

Findings:

- The amount of loan used for productive purposes in

the more irrigational facilities area is 90.8 per cent where as it is only 72.3 per cent in the less irrigational facilities area.

- The maximum credit used for productive purposes is found in the case of medium farmers (81%) in the less irrigational facility area whereas it is 96 per cent in the case of large farmers in the more irrigational facility area.

- Maximum misutilization of cooperative credit is marked in case of marginal farmers in both the areas *i.e.* 25 per cent in the more irrigational facility area and 45 per cent in less irrigational facility area.

- The large farmers rank second in misutilization of crop loans in less irrigational facility area in terms of amount but in terms of no of farmers they rank last.

Suggestions:

- The bank should formulate a prospective plan for effective implementation of the objectives and also evaluate the performance.

- Wider campaign and publicity with a view to show the benevolent effects of cooperative movement.

- There should be provision of credit for the consumption purposes in order to reduce the misdirection of funds for unproductive purposes.

- The entire productive credit is disbursed in one lump sum at a single point of time. But it should go all along with the agricultural operations as and when they are carried on by the farmers. Hence it is advisable to have a programme of phased disbursement of agricultural credit.

- Inputs like fertilizers, pesticides, seeds etc should be made available to the farmers through marketing federation, instead of providing more cash to the farmers directly for the inputs through PACS. This has salutary effect on proper end use of the credit.

- The Normal credit limit statements are not prepared by the PACS well in advance leading to delays in disbursement of credit. Hence, a strict vigilance is to be kept on PACS by the supervisors of the CCB in the preparation of NCLS on an

objective basis.

- Necessary steps should be taken to ensure speedy and timely disbursement of loans prior to the commencement of agricultural operations.

- Fresh credit to the existing farmers is to be given on the basis of past repayment behavior and potential improvement in the loan repaying capacity of the borrowing families before the sanctioning the loan.

- The government should not encourage loan waiver scheme. In some cases, strictly on a selective basis, the government can waive the loan of the farmers out of its exchequer and immediate reimbursement has to be made to the bank and in no way the bank should be made to bear the burden of such a social welfare program

Conclusion:

In brief, it may be concluded that the Chitradurga district central cooperative bank has made good efforts to include the farming community consisting almost all categories irrespective of their size of land holdings in growth process. Still the farmers in less irrigational facilities area have not fully cope with the objectives of CDDCB, hence they have misutilized significant amount of funds for unproductive purposes. But the Chitradurga district central cooperative bank has been partially successful in bringing more farmers in Inclusive growth process in more irrigational facility area.

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