

MISUTILISATION OF AGRICULTURAL CREDIT IN PUNJAB

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Abstract

This paper examines that loans were issued mostly without keeping in the mind repayment capacity of the borrowers and were not properly supervised by the co-operative supervisors' resulting in the diversion of the loans for unproductive reasons. The historical data reveals that the credit taken from institutional sources for agricultural purpose is misutilized. This paper has also discussed about the consequences of misutilization of agricultural credit in Punjab. The study suggested, sanction of loans to deserving applicant, co-ordination between different institutional agencies, strict monitoring on utilization of loans, development of suitable repayment schedule, provision of crop insurance to all crops and delegation of adequate. The objective of the paper is to identify reasons of misutilization and various measures to control misutilization of agricultural credit.

Keywords: Agricultural credit, Borrowing Behavior, District Consultative Committee Meetings (DCCM), State Level Bankers Committee Meeting (SLBC), National Bank for Agriculture and Rural Development (NABARD).

I. INTRODUCTION

The Government of the state of Punjab is very highly sensitive and has taken very strong, important and need based steps and measures to the need of transforming agriculture from being merely a means of attaining food self-sufficiency in to a powerful engine of growth and prosperity, especially in the context of new opportunities of the global market. The global market provides ample, adequate and ever green scope to the farmers for exporting the crop production at very attractive and lucrative rates. Due to the advancements in information technology and communication systems the entire world has shrunk into a global village. Comprehensive arrangements for financing a whole gamut of agriculture related activities which would play a crucial and very important role in this transformation includes and covers input distribution, utilization pattern of loans, end use of farm credit, supply of labour, crop production, post harvest storage and processing and export marketing .

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Agriculture sector has been and continue to be remained a part of centrally planned economic system with Government organizations and other agencies closely involved in all agriculture production and distribution activities. The Annual District Credit Plans are prepared at the District Level by the Lead District Manager of the Lead Bank in consultation of all the banks operating in the district and targets are allotted to all the banks and financial institutions functioning in each district with respect to rural financing for different activities including crop production. These allotted targets are then reviewed on quarterly basis in the District Consultative Committee Meetings (DCC Meetings) with respect to the achievements of allotted targets and their utilization patterns and remedial measures are suggested to those banks who are lagging in the achievement of targets so that they also achieve their targets of agriculture production.. At the State Level the Rural Financing is monitored by the State Level Bankers Committee Meeting (SLBC Meetings) on quarterly basis. The whole purpose of all these meetings is to ensure the regular flow of institutional agriculture credit to the rural areas for agriculture and allied activities and the proper utilization of those loans by the farmers for productive purposes only so that the farmers may increase and augment their income.

In the financial sector which in its entirety, is the Government owned and directed, where the Reserve Bank of India and National Bank for Agriculture and Rural Development (NABARD) plays very important key role and are at the helm of affairs, and includes the Nationalized Banks, Regional Rural Banks, Private Sector banks and Financial Institutions and Public Financial Institutions which are involved in rural lending to agriculture sector.

The credit extended by these banks/financial institutions etc. to the rural people is called the direct lending to agriculture sector. Besides there are State Level Cooperative Banks, District Level Cooperative Banks and Primary Agriculture Cooperative Credit Societies and Multipurpose Cooperative Credit Societies which also provide loans to agriculture sector. These Primary Agriculture Cooperative Credit Societies and Multipurpose Cooperative Credit Societies borrow funds from the Cooperative banks and further lend to their members who are villagers for different activities relating to agriculture and allied activities. This type of lending is called the Indirect Lending to Agriculture Sector. The importance and significance of institutional farm credit as a critical input to agriculture has been reinforced and strengthened by the unique role of Indian Agriculture in general and the Punjab agriculture in particular in macro-economic framework and its role in poverty alleviation. Institutional farm Credit plays a pivotal role in agriculture development. Modern agriculture requires considerable and significant investment with both of recurring and non-recurring nature. The recurring capital is repetitive in nature i. e. seeds, fertilizers, insecticides, pesticides fungicides, ploughing and hoeing charge and labour, etc. The non-recurring capital is investment in agriculture implements, ploughing animals (bullocks) tractors, tube-wells, wells, land development , construction of animal sheds, storage godowns etc. The Punjab economy is an agrarian economy in nature where agriculture plays very key, significant, important and crucial role in the Punjab's socio-economic transformation, apart from being the source of food to the people in the country/states. It is

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the greatest employer of labour and the provider of incomes, sources of industrial raw materials and export products for foreign exchange earnings and has been in the past been an important provider of the resources for investments in other sectors of the economy of the country also.

In the state of Punjab, various banks are operating through their wide spread net work of branches. This net work of branches of various banks, financial Institutions and Cooperative Banks and the financial assistance provided by them to agriculture sector is given below in the form of tables:

II. REVIEW OF LITERATURE

Patil (1967) explained the effect of the size of land holdings on repayment of cooperative loans. The study highlighted that the average annual income of the defaulters was very low due to their small size of holdings. Most of the defaulters were unable to repay their loans due to meager income from farm and high domestic expenditure necessary to make their both ends meet.

Pandey (1977) in his study found that loans were issued mostly without keeping in the mind repayment capacity of the borrowers and were not properly supervised by the co-operative supervisors' resulting in the diversion of the loans for unproductive purpose and accumulation of overdues.

Lal and Lavania (1986) have found that 78.18 percent of the total co-operative credit was utilized for productive and the rest 21.82 percent for unproductive purposes. The credit utilization on unproductive purpose decreased with the increase in farm size which indicated that large cultivators utilized the highest percentage of credit for productive purposes.

Singh (1988) conducted a study in Gurdaspur district and found that 80 per cent of rural families were under debt. The burden of debt was found to be much more in small and marginal farmers category. More than half of the loan was taken from commercial banks, about 35 per cent from cooperative credit societies and about 19 per cent from non-institutional sources as arhtiyas and relatives and friends. The rich households took major part of their loans for productive purposes whereas major proportion of loans taken by small and marginal farmers, consists of loan for major repairs of house, marriages, health, consumption and payment of old debts. In small farmers category unproductive loans accounted for 40 per cent, whereas in case of big farmers it was only 28.5 per cent. In formal sector, share of cooperative sector was the largest followed by commercial banks. In unorganized sector arhtiyas constituted 37.8 per cent followed by relatives and friend (34%). Due to simple procedure and quick supply, informal agencies especially arhtiyas were very popular among the farmers.

Dewar (1989) analyzed the magnitude of overdue of the agricultural loans given by various institutional agencies to the farmers in the state of Andhra Pradesh. Improper appraisal, ineffective supervision, occurrence of natural Calamities, misutilisation of loans for unproductive purpose, diversion of income to other trades, and the over financing were the major causes of loan overdues. The study suggested, sanction of loans to deserving

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applicant, co-ordination between different institutional agencies, strict monitoring on utilization of loans, development of suitable repayment schedule, provision of crop insurance to all crops and delegation of adequate powers to take corrective action against the willful defaulters.

Kittur (1990) was of the opinion that marginal and small farmers tended to use diverted funds to meet the basic necessities of life, whereas large and well to do farmers used the funds towards useful and conspicuous consumption whenever the loans were made in cash, the chances of misuse were higher as compared to loans made in kind.

Wilson (2002) brought out that adoption of new technology by small and marginal farmers was the result of compulsion rather than choice in Bihar. For this, they depended on large farmers and remain trapped in a cycle of poverty. After the introduction of new economic policy in 1991, the cost of cultivation had jumped due to increase in input prices. The rich peasants were involved in lending rather than investing in agriculture. The supply of inputs including fertilisers, seeds and diesel continued to be largely controlled by a section of these landowners with links with the administration. In conclusion, the findings caused considerable doubt on studies that have characterized the adoption of the new technology by small and marginal cultivators as leading to income diffusion. It was suggested that as long as a highly unequal distribution of land and other resources persisted, poor peasants adaptation of this technology and integration into a number of markets would remain 'compulsive' and could only deepen their dependence on those with economic, social and political power.

Golait (2007) attempted to analyse the issues in agricultural credit in India. It was examined that credit provided to agriculture sector is inadequate. It was analysed that the banking system is still hesitant to provide credit to small and marginal farmers.

Thamilsaran (2009) revealed the impact of institutional credit on employment, income and occupation and assets of the borrower after making studies. His findings on the study revealed that employment generation has increased by 44.61 % over a pre loan period, average income increased by Rs.577.84 per house. He suggested that in order to monitor the utilization of credit, there should be a proper mechanism in order to increase employment generation.

Harpreet Sandhu (2012) studied the growth of agricultural credit and its effect on farmers and current agriculture scenario. She highlighted that union government has been laying emphasis on agriculture sector and brought agricultural credit under priority sectors and has been increasing financial support to this sector in every central budget from year to year ever since nationalization of leading scheduled commercial banks. She found that increase in finance has not gone to rural India which is involved in agriculture activities rather gone to urban India which is involved in agriculture related activities like manures, seeds etc and their transportation which means purchase of vehicle, cold storage, and purchase of land for agriculture use which increases the misuse of farming credit.

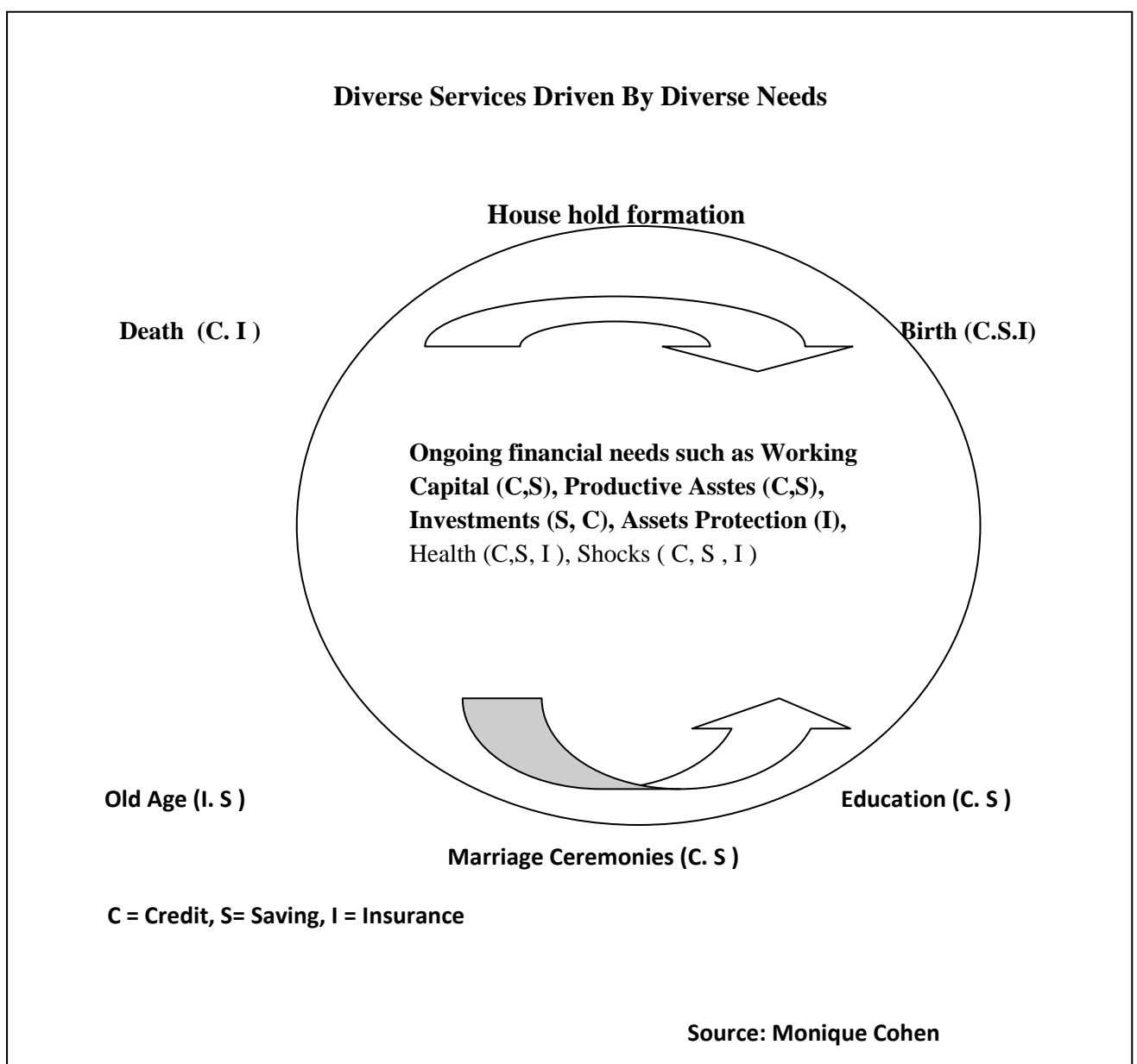
Pradhan (2013) analysed that since 1980s due to increasing farm costs and inputs prices, waning of the initial prosperity of farmers has put heavy pressure on the farmers to borrow more and more loans from informal lenders in the absence of access to adequate formal finance. Rural credit market in India has always been characterized by the co-existence of

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both formal and informal sources of finance. The entire credit needs of the rural sector were met by the money lenders before the beginning of the First Five year Plan in 1951.

III. MISUTILISATION OF AGRICULTURAL CREDIT

Chart 1 given below throws light on "Are Loan Utilization Checks Really Necessary"



Source: Offices across Asia, Africa and Latin America. [www. MicroSave.net](http://www.MicroSave.net)

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Are Loan Utilization Checks Really Necessary: Wright (1996) poor people also need access to lump sum money is a generally accepted principal so that they can send their children to school, buy medicines, bear other shocks and emergencies that encompass their households, celebrate social and religious festivals, save for old age etc. A wide range of financial services are needed by the poor people. Income and expenditure flows of poor households changes with the season, advent of the festivals or shocks to the household economy. Prompt access to emergencies loans is needed by the poor people and this requirement is met either by family friends or by money lenders, commission agents etc. or increased flexibility in the repayment schedule of loan set by financial institutions. Diverse Services Driven By Diverse Needs i, e, death (C.I), birth (C. S. I), Working Capital (C. S), Productive Assets (C. S), Investments (S. C), Assets Protection (I), Health (C. S. I), Shocks (C.S. I), Old Age (I. S.), Education (C. S) and marriage ceremonies (C. S). The borrowers diversify the loan to meet other pressing needs which means he does not utilize the loan for that purpose which he has stated in his loan application which is submitted to the financial institution for the sanction of loan. It shows that the loans are not utilized for productive purposes but are diversified and utilized for unproductive purposes. Therefore the checks on the utilization of loans are considered to be an integral part of original Grameen Bank Methodology Dhaka and loan utilization checks are also considered very essential and important by the financial institutions in Punjab and other states of India as well. Therefore it is essential that loan has to be tied for specific purposes.

IV. REASONS OF MISUTILISATION OF AGRICULTURAL CREDIT

Historical data reveals that the farmers do not utilize the loan for the purpose for which the loan has been raised i.e for purchase of inputs for crop production or for investment for purchase of tractor, implements, equipments, installation of tube wells etc. The reasons for not utilizing the loan for crop production are the following:

- **Age:** Farmers less than 30 years of age take immature decisions and therefore do not properly utilize the crop loans.
- **Marital status:** Unmarried farmers take immature decisions and therefore do not properly utilize the crop loans.
- **Education:** Uneducated farmers take immature decisions and therefore do not properly utilize the crop loans.
- **Other occupations:** Farmers who, besides agriculture have other occupation can diversify the loans raised for agriculture purposes to non agriculture purposes.
- **Farming experience:** Less experienced farmers will not utilize the amount of loan for crop production.
- **Member of farm organizations/cooperative societies etc.:** The farmers who are not the members of any farming organization or any other organization usually use the loan or part of it for consumption purposes of for religious ceremonies.
- **Training in agriculture:** The untrained farmers usually use the loan or part of it for consumption purposes of for religious ceremonies or for marriage ceremonies.

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V. MEASURES TO CONTROL MISUTILISATION OF AGRICULTURAL CREDIT

The banks have introduced the control measures to ensure that the loan is utilized properly for the purpose for which it has been sanctioned and disbursed. For this purpose the Banks have introduced the following visit / inspection reports which form a part of the loan documents for the supervision of the utilization of the loan:

1. Pre-sanction visit report
2. Post sanction visit report
3. Post disbursement visit report

The site of the project is visited by a responsible Officer of the bank which will sanction the loan and after visiting the project site will submit the above reports to the branch Head.

The loan is provided and disbursed in a phased manner and if the amount of loan is heavy then it is disbursed in three to four installments. The next installment is disbursed only when the first earlier installment has been properly utilized. All these steps are taken by the banks to ensure that the loan granted has been utilized for the purpose for which it has been raised.

Such misutilisation of agriculture loans can be controlled through proper monitoring. The purpose of monitoring the utilization pattern of farm credit is to ensure that the loans raised are properly utilized for the purpose as mentioned in the loan application i. e. if the loan has been raised for crop production then the farmers must utilize the loan for crop production only and not for any other purpose. This check is exercised in District Consultative Committee Meetings which are chaired by the Deputy Commissioner of the concerned districts at the district level which ensures that the farmers properly utilize the farm credit for the crop production only. If this is done then the proper utilization of farm credit will enhance the farmer's income from farm operation which in turn will help the farmers to repay the loans raised by the farmers. Repayment of loans to the banks, on their due dates, by the farmers will either reduce or eliminate the non-performing assets of the banks. The non-performing assets, as we all know, erode the profitability of the banks due to the provisioning norms. Thus lower the non-performing assets of the banks, higher will be their profitability.

It is well settled principles amongst the banks that the loan for agriculture is given for productive purposes and not for unproductive purposes. If on the other hand the borrower farmer does not utilize the loan for the purposes for which such loan has been raised, i. e. he utilizes the loan for unproductive purposes, then his income will be nil because he misutilised the loan. The banks give loan for productive purposes only after assessing the viability of the loan proposal in a scientific manner. If the loan proposal is viable, sound and generates good income to the borrower only then the bank sanction that loan proposal otherwise not.

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Table 1: Productive and unproductive utilization of cash and credit taken from Primary Agriculture Cooperative Credit Society.(in Rs.)

Size of family	Productive purposes		Unproductive Purposes		Total	
	Cash	Kind	Cash	Kind	Cash	Kind
Marginal	600.00 (98.68)	1501.20 (100.00)	8.00 (1.32)	-	608.00 (100.00)	1501.20 (100.00)
Small	-	4308.00 (99.80)	-	40 (0.20)	-	4348.00 (100.00)
Medium	-	9448.00 (98.95)	-	100.00 (1.05)	-	9548.00 (100.00)
Large	-	2720.00 (62.01)	-	1666.67 (37.99)	-	4386.67 (100.00)
Average	341.23 (98.68)	3500.16 (96.06)	4.55 (1.32)	143.41 (3.94)	345.78 (100.00)	3643.57 (100.00)

(Figures in parentheses indicate percentage to total)

Source: Farm Credit its Sources and Pattern of Utilisation - an Empirical Analysis By Dr. S. K. Singh, Reader Agricultural Economics, Udai Pratap Autonomous College, Varanasi (U. P.)

Table 1 given above shows that in the study area which was conducted in Manihari block of Ghazipur district of Uttar Pradesh shows that:

- Out of total cash component of Rs.608/-, the cash of Rs.600.00 which constitute 98.68 % has been utilized by the Marginal farmers for productive purposes and the cash component of Rs.8.00 which constitute 1.32 % has been utilized for unproductive purposes. In the case of total kind component of Rs.1501.20 the entire amount of Rs.1501.20 (100.00 %) has been utilized for productive purposes.
- Out of total kind component of Rs.4348.00, the sum of Rs 4308.00 (99.80%) has been utilized by the small farmers for productive purposes and Rs.40.00 (0.20%) has been utilized for unproductive purposes.
- Out of total kind component of Rs.9548.00, the sum of Rs 9448.00 (98.95%) has been utilized by the medium farmers for productive purposes and Rs.100.00 (1.05%) has been utilized for unproductive purposes.
- Out of total kind component of Rs.4386.67, the sum of Rs 2720.00 (62.01%) has been utilized by the large farmers for productive purposes and Rs.1666.67 (37.99%) has been utilized for unproductive purposes

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VI. CONSEQUENCES OF MISUTILISATION OF AGRICULTURAL CREDIT

If some of the borrower farmers misutilise (the loan is utilised for unproductive purposes) the full amount/part amount of loan in one way or the other then the following are the consequences of such misutilisation of the loans:

- The borrower will not earn any profit or will earn less profit if part of the loan is used for productive purposes.
- The borrower will not be able to repay the loan along with interest to the concerned bank.
- The loan raised along with interest becomes non-performing assets.
- The banks then exercises the powers granted to them under section 13 the Securities and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and take possession of the financial assets of the borrower without the aid of the court or the banks take over the management of the business of the borrower under section 15 of the Securities and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
- The bank which has sanctioned the loan intimates the name and address of the defaulting borrower along with the amount of overdue amount to the credit Investigation Bureau of India Ltd (CIBIL). The CIBIL takes such particulars of the defaulting borrower on its record. When any bank wants to sanction any loan to any person then such bank before sanctioning the loan verifies the credentials of the borrowers from the record of CIBIL. If the CIBIL records show that the said person is already a defaulter of some bank then the other bank will not sanction the loan.
- Such defaulters then raises the loan from the informal sources such as money lenders, commission agents etc. at exorbitant rate of interest. Thus comes under the pressure of heavy debt. Unable to return such big amount of loan such defaulter commits suicides.

Punjab State which is considered to be the grain bowl of India, forced by the financial crunch, has witnessed an estimated 5000 farmers and farm laborers in this agrarian State who committed suicide in last decade i. e 2000 to 2010. This works out to be 500 suicides a year or three suicides every two days. Of these 5000 farmer, 3000 committed suicide in only two districts i. e. Bathinda and Sangrur. About 30% of the farmers/farm labourers were in the prime of their life (20 to 30 years old) while 60% had unpaid debts. In all about 47 of these 3000 farmers, who committed suicide were illiterate. In India the public policy has always been directed towards ensuring adequate credit with focus on institutionalization of rural credit. The rising costs of cultivation and declining productivity has increase the credit needs of farmers. It leads to a situation of high level of indebtedness from informal lenders and ultimately triggered farmers to take the extreme step of committing suicides.

VII. CONCLUSION

In Punjab State the land is plenty and is passing through agrarian crisis. There is a growing trend among the farmers with small land holdings to borrow large sums of money and

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organize ceremonies like wedding and other family functions by misutilising the loans and utilizing such loans for unproductive purposes. Their income is less and borrowing is more. Thus their borrowings do not commensurate with their repaying capacity. The result is that their borrowings go on increasing and their income goes on decreasing. Then the lenders put pressure on them to recover their dues and take possession of their assets. Under this humiliation the farmer commits suicide either by hanging himself or by taking poison.

Often loans are diverted for providential or unproductive purposes by the farmers to meet urgent needs of medical expenses, marriages of family members. The crop loans, as stated above, are given in cash and kind. The cash component of loan is very vulnerable to misutilisation. This situation requires the loan utilization checks by the banks/RRBs/Cooperative banks. The cash component of the loan are misutilised by the farmers because it is used to repay the debt which the farmers too from money lenders at exorbitant rate of interest.

The reasons of poverty of the marginal/small farmers and to some extent of the medium farmers are that this category, no doubt raises the loans from banks/RRBs/Cooperative banks, misutilises such loans as a result of which could not increase their income level from crop production. Therefore they are poor.

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