Diversion of Agricultural Credit Disbursed by Co-operative Banks in Kozhikode District of Kerala State

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Abstract

Bank credit to agriculture is very much significant to agriculture since majority of the agriculturists face the shortage of funds to invest. It enables the agriculturalists to procure inputs such as fertilisers, seeds and pesticides etc. for raising and harvesting the agricultural commodities. It is also very much needed to get the benefits of highly sophisticated technological products. Under the formal institutional sources Co-operatives also play a very significant role in almost all the States of the country and the State of Kerala is not an exception. The utilisation of credit is one of the significant elements determining the productivity of the credit as well as the repayment performance. The proper utilisation of credit only can ensure prompt repayment leading to recycling of credit. If it is diverted for other personal purposes, it will definitely result not only in agricultural distress but also in agricultural indebtedness. The various statistics reveal that diversion of credit to some purposes other than the stated agricultural purposes for which the credit was taken is a common seen in the agricultural credit system. The diverted amount of credit may be used for some personal purposes or for even repaying past debt of the borrowers. Therefore, some urgent measures at policy level are to be initiated to wipe out the diversion prevailing in agricultural credit so as to have a proper utilisation of agricultural credit.

Keywords: Agricultural, Bank, Borrower, Co-operative Bank, Credit, Diversion, Utilisation.

Introduction

India is called as a land of agriculture since majority of its population is living in villages with agriculture and allied activities as their main occupation. Hence, agriculture occupies a pivotal role to the economy and is considered as a major concern for the development of the nation. In order to accelerate the growth in agricultural sector, the Reserve Bank of India, NABARD and Government of India have formulated and implemented wide range of programmes and policies. As a result huge amount of credit to agriculture has been disbursed by banks and other financial institutions in the country. The credits disbursed by the banks are meant for proper utilisation and it only

will result in sufficient return to the agriculturists, which will lead to repayment performance of borrowers and profitability to the lending banks. The latest data of the Government of India reveals that diversion is still a sad plight in agricultural credit more specifically in case of agricultural gold loan. Moreover, accumulation of Non-Performing Assets in agricultural credit is another crucial concern. Therefore, it is an urgent need of the hour to explore the possibilities and extent of diversion of agricultural credit made by the borrowers. It only can bring to light the negative aspects of the problem of diversion so that some practical measures are initiated and implemented so as to wipe out the diversion in its strict sense in the sector.

Significance

Credit in agricultural sector occupies a very significant role to the development of the economy in general and agricultural sector in particular. Among the banks co-operative banks also are playing a remarkable role in the credit delivery to agriculture. The agricultural credit disbursed by the banks must be availed by the agricultural borrowers only and it must also be utilised for the specified agricultural purposes only. However, even now the use of agricultural credit for some personal purposes is a common seen in most of the cases. This is due to indebtedness faced by the agriculturists or for some other personal reasons. Therefore, some stringent actions at policy level are to be initiated for the proper utilisation of agricultural credit so as to keep away from the evils of diversion of credit. In this circumstance, an attempt is being made to examine the extent of diversion made by the agricultural borrowers of Co-operative Banks in the Kozhikode District of Kerala State.

Objectives

The study mainly aims at achieving the following objectives;

1. To analyse the extent of diversion and utilisation of agricultural credit availed by the agricultural borrowers, and
2. To make a comparative analysis of the extent of diversion of agricultural credit made by the agricultural borrowers on different basis.

Hypotheses

In order to have a suitable inferential analysis the following major hypotheses were formulated and tested.

1. $H0_{1:}$ There exists no significant association between gender and diversion of agricultural credit made by the borrowers.
2. $H0_{2:}$ There exists no significant association between occupation and diversion of agricultural credit made by the borrowers.

3. $H0_{3:}$ there exists no significant association between status of cultivation and diversion of agricultural credit made by the borrowers.

4. $H0_{4:}$ There exists no significant association between method of cultivation and diversion of agricultural credit made by the borrowers.

5. $H0_{5:}$ there exists no significant association between nature of credit and diversion of agricultural credit made by the borrowers.

6. $H0_{6:}$ there exists no significant association between type of credit and diversion of agricultural credit made by the borrowers.

7. $H0_{7:}$ there exists no significant association between the different categories of borrowers and diversion of agricultural credit made by the borrowers.

Review of Literature

Guruswami and Baluswami (1975) stated that 45 percent of the agriculture loans were completely diverted for purposes other than agriculture. Vasudeva Naidu, Rukmani and Sailaja (2008) revealed that only 30 percent have utilised their loan amount to agriculture purpose and the remaining 70 percent have used their loan amount for other purposes. Singh (2009) revealed that the extent of diversion of credit by the famer borrowers were accounted as 14.08 percent, 16.33 percent, 13.48 percent, and 14.19 percent for marginal, small, medium , and large farmers respectively. The study conducted by Boraiah and Dananjaya (2012) reveal that 28 percent of loan was mis-utilised by about 43 percent of the farmers. Sirajudeen (2012) states that diversion of credit by the agricultural borrowers for the purposes other than the stated purpose is a common spectacle in all the types of agricultural credit. Ratanlal Godara, Pratap Singh, and Sanjay Singla (2014) found that 30 percent of small, 53 percent of marginal and 47 percent of large farmers had mis-utilised the loan on purchasing assets, consumption, and construction of houses and in repaying old debt.

Methodology

The study is based mainly on primary data and it is descriptive in nature. The primary data was collected from the borrowers of agricultural credit with the use of a structured questionnaire. The Convenient Random Sampling Technique was used for the selection of sample borrowers. All the taluks in the district of Kozhikode were given equal representation in the selection of sample borrowers. The Co-operative Banks selected include Primary Co-operative banks and District Co-operative Banks in Kozhikode District. A total of 150 agricultural borrowers of Co-operative banks in the district were selected by giving equal representation to both the group of banks. The study used the mathematical and statistical tools of Percentage and Chi-square for analysing the data.

Results and Discussions

The analysis results of diversion and utilisation of agricultural credit availed by the agricultural borrowers are described under the following seven heads.

1.1 Gender Wise Diversion of Agricultural Credit

The gender wise analysis result with regard to the diversion of agricultural credit made by the agricultural borrowers is given in Table 1. It states that out of the 150 respondents, 46 percent borrowers have diverted the credit amount to some purposes other than the stated agricultural purpose for which the credit was taken and only 54 percent borrowers have utilised the credit for their stated agricultural purposes. The gender wise analysis reveals that more diversion was made by male borrowers as compared to female borrowers, which represents 64.44 percent and 18.33 percent respectively for male and females. In order to verify whether there exists any statistically significant association between gender and diversion of agricultural credit Chi-square test is used. It reveals zero as 'P' value, which is less than 0.05. Therefore, the hypothesis is rejected at 5% level of significance and it is concluded that there exists significant association between gender and diversion of agricultural credit made by the borrowers.

Table 1

Gender Wise Diversion of Agricultural Credit

Diversion of Credit	Gender		Total	Chi Square	P Value
	Male	Female			
Diverted	58 (64.44%)	11 (18.33%)	69 (46%)	**30.185**	**0.000**
Not Diverted	32 (35.56%)	49 (81.67%)	81 (54%)		
Total	90 (100%)	60 (100%)	150 (100%)		

Source: Primary Data

1.2 Occupation Wise Diversion of Agricultural Credit

The occupation of the borrowers may vary from cases to cases. The agriculturists may have either agriculture as their main occupation or other than agriculture. On the basis of main occupation category of the borrowers, the diversion is analysed and its result is depicted in Table 2. It is pertinent to note that the diversion is quiet lower for those borrowers who took agriculture as their main occupation (29.17%). However, large number of borrowers (61.54%) having main occupation other than agriculture have diverted their credit to some other personal purposes. The Chi-square test is used to verify whether there exists any statistically significant association between occupation category of the borrowers and diversion of agricultural credit. The 'P' value arrived at applying the test is zero, which

is less than 0.05. Hence, the hypothesis is rejected at 5% level of significance and it can be concluded that there exists significant association between occupation and diversion of agricultural credit.

Table 2

Occupation Wise Diversion of Agricultural Credit

Diversion of Credit	Occupation		Total	Chi Square	P Value
	Agriculture	Others			
Diverted	21 (29.17%)	48 (61.54%)	69 (46%)	**15.795**	**0.000**
Not Diverted	51 (70.83%)	30 (38.46%)	81 (54%)		
Total	72 (100%)	78 (100%)	150 (100%)		

Source: Primary Data

1.3 Cultivation Status Wise Diversion of Agricultural Credit

The agricultural borrower may have different status, viz, own or tenant depending up on the status of ownership of land and tenancy agreement entered in to for their agricultural endeavours. On the basis of cultivation status also diversion is analysed and the result with regard to the same is given in Table 3. It discloses that tenant farmers have least diversion (24.24%) as compared to farmers who use their own land for their agricultural operations, which represents 52.14% of total borrowers of this category. In order to establish whether there exists any statistically significant association between status of cultivation and diversion of agricultural credit Chi-square test is applied. The 'P' value obtained is 0.005, which is lower than 0.05 and therefore, the hypothesis is rejected at 5% level of significance. So it can be concluded that there exists statistically significant association between status of cultivation and diversion of agricultural credit made by the borrowers.

Table 3

Cultivation Status Wise Diversion of Agricultural Credit

Diversion of Credit	Cultivation Status		Total	Chi Square	P Value
	Own	Tenant			
Diverted	61 (52.14%)	8 (24.24%)	69 (46%)	**8.063**	**0.005**
Not Diverted	56 (47.86%)	25 (75.76%)	81 (54%)		
Total	117 (100%)	33 (100%)	150 (100%)		

Source: Primary Data

1.4 Cultivation Method Wise Diversion of Agricultural Credit

The borrowers may use traditional or modern method of agriculture for their agricultural operations. The cultivation method wise diversion is also analysed and the result of the same is given in Table 4. It is clear from the table that out of the diverted category, no huge difference can be seen between the borrowers who depend traditional method and modern method, which is about 46 percent of the total borrowers for both the categories. In order to verify whether there exists any statistically significant association between method of cultivation and diversion of agricultural credit Chi-square test is depended. It reveals a 'P' value 0.956, which is more than 0.05 and therefore, the hypothesis is accepted at 5% level of significance. Hence, it is concluded that there exists no significant association between method of cultivation and diversion of agricultural credit made by the borrowers.

Table 4

Cultivation Method Wise Diversion of Agricultural Credit

Diversion of Credit	Cultivation Method		Total	Chi Square	P Value
	Traditional	Modern			
Diverted	44 (45.83%)	25 (46.30%)	69 (46%)	**0.003**	**0.956**
Not Diverted	52 (54.17%)	29 (53.70%)	81 (54%)		
Total	96 (100%)	54 (100%)	150 (100%)		

Source: Primary Data

1.5 Nature of Credit Wise Diversion of Agricultural Credit

The nature of agricultural credits, generally, are of two, i.e. crop or term credit depending up on the different nature of agricultural activities. The analysis result of diversion of credit with regard to the nature of credit is given in Table 5, which reveals that nearly 50 percent of both the categories have diverted their agricultural credit and no huge difference can be seen between them. It is also substantiated with the result of Chi-square test as the 'P' value is 0.765, which is more than 0.05. Therefore, the hypothesis is accepted at 5% level of significance and it is concluded that there exists no significant association between nature of credit and diversion of agricultural credit made by the borrowers.

Table 5

Nature of Credit Wise Diversion of Agricultural Credit

Diversion of Credit	Nature of Credit		Total	Chi Square	P Value
	Crop	Term			
Diverted	22 (47.83%)	47 (45.19%)	69 (46%)	**0.089**	**0.765**
Not Diverted	24 (52.17%)	57 (54.81%)	81 (54%)		
Total	46 (100%)	104 (100%)	150 (100%)		

Source: Primary Data

1.6 Type of Credit Wise Diversion of Agricultural Credit

The main securities demanded by the banks for the disbursal of agricultural credit include land and gold and hence we have agricultural gold loan and other types of gold loan. The diversion of credit is here analysed by classifying the credit in to these two categories and the analysis result of the same is given in Table 6. The table reveals that 80 percent of the borrowers of agricultural gold loan diverted their credit for the purposes other than the stated agricultural purposes, where as it only 16.25 percent borrowers in case of other types of credit. Chi-square test is used to verify whether there is any statistically significant association between type of credit and diversion of agricultural credit availed by the borrowers. Its result reveals zero as 'P' value, which is less than 0.05. Therefore, the hypothesis is rejected at 5% level of significance and it is concluded that there exists significant association between type of credit and diversion of agricultural credit made by the borrowers.

Table 6

Type of Credit Wise Diversion of Agricultural Credit

Diversion of Credit	Type of Credit		Total	Chi Square	P Value
	Gold Loan	Others			
Diverted	56 (80%)	13 (16.25%)	69 (46%)	**61.081**	**0.000**
Not Diverted	14 (20%)	67 (83.75%)	81 (54%)		
Total	70 (100%)	80 (100%)	150 (100%)		

Source: Primary Data

1.7 Borrowers' Category Wise Diversion of Agricultural Credit

The borrowers or the agriculturists are categorised in to three, namely, small, medium and large categories on the basis of the land occupied by them. The borrowers' category wise analysis result with regard to the diversion of agricultural credit made by the borrowers is given in Table 7. The table states that out of the diverted categories as a whole (46%), more diversion is seen in case of small category of borrowers (56.94%) and which is quiet lower for large category of borrowers (24.14%). Moreover, 42.86 percent borrowers of medium category also diverted their agricultural credit for some purposes other than agricultural purposes. In order to verify whether there exists any statistically significant association between the category of borrowers and diversion of agricultural credit Chi-square test is used. It reveals 0.010 as 'P' value, which is lower than 0.05. Therefore, the hypothesis is rejected at 5% level of significance and it is concluded that there exists significant association between the different categories of borrowers and diversion of agricultural credit made by the borrowers.

Table 7

Borrowers Category Wise Diversion of Agricultural Credit

Diversion of Credit	Category of Borrowers			Total	Chi Square	P Value
	Small	Medium	Large			
Diverted	41 (56.94%)	21 (42.86%)	7 (24.14%)	69 (46%)	**9.247**	**0.010**
Not Diverted	31 (43.06%)	28 (57.14%)	22 (75.86%)	81 (54%)		
Total	72 (100%)	49 (100%)	29 (100%)	150 (100%)		

Source: Primary Data

Major Findings

1. It is found that 46 percent borrowers have diverted their agricultural credit and only 54 percent borrowers have utilised the credit for the agricultural purposes for which the credit was taken.

2. It is found that more diversion was made by male borrowers as compared to female borrowers and there exists significant association between gender and diversion of agricultural credit made by the borrowers.

3. It is found that diversion is quiet lower for those borrowers who took agriculture as their main occupation and there exists significant association between occupation categories and diversion of agricultural credit.

4. It is disclosed that tenant farmers have least diversion and there exists statistically significant association between status of cultivation and diversion of agricultural credit made by the borrowers.

5. Out of the diverted category, no huge difference can be seen between the borrowers who depends traditional method and modern method for their agricultural operations and there exists no significant association between method of cultivation and diversion of agricultural credit made by the borrowers.

6. It is revealed that about half of both the borrowers of crop and term credit have diverted their agricultural credit there exists no significant association between nature of credit and diversion of agricultural credit made by the borrowers.

7. A total 80 percent of the borrowers of agricultural gold loan diverted their credit for the purposes other than the stated agricultural purposes and there exists significant association between type of credit and diversion of agricultural credit made by the borrowers.

8. It is found that more diversion is seen for small category of borrowers and which is quiet lower for large category of borrowers. It is also revealed that there is significant association between the different categories of borrowers and diversion of agricultural credit made by the borrowers.

Conclusion

Utilisation of agricultural credit is one of the significant elements determining the productivity of the credit as well as its repayment performance. The proper utilisation of credit only can ensure prompt repayment leading to recycling of credit. If the agricultural credit is diverted for other personal purposes, it will definitely result not only in agricultural distress but also in agricultural indebtedness. The study concludes that diversion of credit amount to some purposes other than the stated agricultural purposes for which the credit was taken is still a serious phenomenon. About half of the agricultural credit availed was diverted by the borrowers for some other personal purposes leaving the agricultural endeavour. Therefore, some urgent measures at policy level are to be initiated to wipe out the diversion so as to have a proper utilisation of agricultural credit.

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