



## Utilization Pattern of Credit Obtained by the Farmers with Special Reference to Baghra Block of Muzaffarnagar District

DR. SHIPRA PANWAR

### Abstract:

*Utilization aspect of credit is as important as its availability. If available credit is utilized for the purpose, it helps not only in increasing farm output in term of income to the farmers, but also motivates the repaying capacity of farmers. On the other hand, if the available credit is miss-utilized or diverted for other purposes such as marriage & social function, house construction and medical etc. then the income does not increase to the desired level so the actual purpose of credit availability is resisted. Further, it creates the burden of debt and the problem of growing over-dues results in financial health of the lending institutions deface and if the loan has been taken from the informal (non-institutional) sources, it gives rise to many personal and social problems in the society. The main objective of this paper is to study the utilization pattern of obtained agricultural credit (only from PACSs and CBs) by the farmers in Baghra block of Muzaffarnagar district.*

**Keywords:** *Institutional Agricultural Credit, Credit Utilization Pattern, Farmers, Children's Education & Cultivation Expenses*

### Introduction

In India, agriculture remained as a noble profession since the time of immorial. According to the National Policy of Agriculture (2000) document, "Agriculture in India is a way of life, a tradition, which for centuries, has shaped the thought, the outlook, the culture and economic life of Indians". Mahatma Gandhi once said, "India lives in its villages". In other words, it can be correct to say that agriculture is the soul of rural India, it's a sentiment, an emotion and devotion too. In India, farmers worship their land before sowing and celebrate like festival after harvesting. In this kind of country, not even agriculture yet rural areas should be the central to all strategies for its planned socio- economic development and a fast and sustainable growth is needed in this respect. In this reference to quote Mahatma Gandhi, "I would say if village perishes, India will perish too".

At the time of independence, India faced a situation of food crises so after independence, to achieve a higher level of production, the growth model adopted by Indian agriculture is known as "Green Revolution Model". However, the revolution is applied for the period from 1967 to 1978. Although, many efforts have been made to achieve self-sufficiency in food between the periods from 1947 to 1967 through economic planning but starvation deaths were still being reported. At this situation Malthus' doctrine is truly correct that population increasing much faster than food production. At this stage we need a drastic change to increase the yield and this is come in form of green revolution. The revolution brings the transformation in the production mode and the whole mechanism of transformation targeted at surplus generation with the large-scale adoption of modern farm technology such as fertilizers, pesticides, HYV seeds, advance irrigation methods and advance machinery etc. This in turn has created a heavy demand for credit. Thus, to quote Paul, "Immense numbers of farmers in developing countries need credit for subsistence during certain seasonal periods; and almost all farmers need credit when they start adopting new method for which supplies and tools are required."

Agriculture credit is therefore crucial for the farm operation. It provides a flow to the agriculture to avoiding the uncertainty which would have occurred due to the lack of farm saving. The Rural Credit Survey Report quotes the French proverb that, "Credit supports the farmer as the hangman's rope supports the hanged". This statement is completely true in the context of Indian farmers. The fact is that farmers in the countries like India cannot expect their credit needs to come from savings. It is so because of their income from farm operations is sufficient only to provide minimum necessities of life. Therefore, they have to depend upon outside finance. The need for agriculture credit arises because modern farm technology is costly and personal resources of the farmers are inadequate. Farmer's inability or least limited ability to save does not allow him to finance his pursuits and raise better production from his farms. Indian farmers require credit for the following purposes:

- For the purpose of operating inputs like seeds, feed, fertilizer and pesticides.
- For the adoption of modern farm technology with high yielding varieties of crop along with the complementary inputs;
- For undertaking permanent farm improvement measures like well digging and deepening, tube well construction and for addition of livestock;
- Lack of simultaneity between the realization of income and act of expenditure and to smooth out the fluctuation in farm income and expenditure;
- For avoiding "distress scale" and to continue their farm operations; and
- For meeting their past obligations.

Therefore, adequate and timely credit to farmers is a vital and indispensable for the rehabilitation and growth of agriculture. Thus, agricultural credit through institutional channels is the only way to break agricultural stagnation in such situations.

Utilization aspect of credit is as important as its availability. If available credit is utilized for the purpose, it helps not only in increasing farm output in term of income to the farmers, but also motivates the repaying capacity of farmers. On the other hand, if the available credit is miss-utilized or diverted for other purposes such as marriage & social function, house construction and medical etc. then the income does not increase to the desired level so the actual purpose of credit availability is resisted. Further, it creates the burden of debt and the problem of growing over-dues results in financial health of the lending institutions deface and if the loan has been taken from the informal (non-institutional) sources, it gives rise to many personal and social problems in the society. "Darling rightly stressed that the problem of agricultural credit is not to find more money for the peasant but to teach him to use it economically and productively" (Gill, 1993).

Awasthi, A. (2005) examined the extent of institutional credit available to farmer household owning land of different size, classes up to two hectare and degree of incidence of their indebtedness at all **India** and **state level** with a view of analysed the economic condition of rural cultivators households. Hatai, L. D.; H. P. Singh; C. Sen; and R. S. Dixit (2005) analysed the availability and utilization of credit by farmers and identified the major cause and determinants of over-dues. It was observed that the share of CBs in total availability of credit per hectare was the highest and followed by RRBs, PACs and land development banks for all the categories of farmers in both West and East region of **Uttar Pradesh**. Riaz, A.; Ghazanfar Ali Khan and Munir Ahmad (2012) studied the utilization of agricultural credit obtained by 120 sample farmers of tehsil Faisalabad from Zarai Tariqati Bank Limited (ZTBL). It was found that with crop rising activities agricultural credit partially used for other purpose also such as livestock and poultry production and household needs. The study suggested that there is a need to make sure that all agricultural credit be utilized for purpose for which it was obtained. Kashyap, S. K. (2013) found that firstly, people misused the entire loan amount instead of using in productive purpose, secondly, some genuine and small farmers are not able to get credit and subsidies due to the cumbersome and complicated procedure and in due delay by the institutions. Alexpandi, M. and S. Rmeshkumar (2014) analysed the extent of utilization and the repayment of agricultural credit by the

farmers in Madurai District, **Tamil Nadu**. Results revealed that a large proportion of the respondents have fully and properly utilized the loan amount and the delay in getting loan was identified as the main reason for miss utilization of the loan amount. The above reviewed studies focused on the institutional credit obtained by the farmers and its utilization pattern. Whether it is used for the aforesaid reason or diverted towards other social issues or fulfilling household requirements. So there is a need to study this issue at micro level for better understanding as suggested by many studies. The main objective of this paper is to study the utilization pattern of obtained agricultural credit (only from PACSs and CBs) by the farmers in Baghra block of Muzaffarnagar district.

### **Data and Research Methodology**

The study makes use of both primary and secondary data. Secondary data are collected from the various department of Muzaffarnagar district such as Department of Agriculture, Revenue Office, Directorate of Economics and Statistics, Lead Bank Office, Block Development Office, Statistical Diary of Uttar Pradesh and Muzaffarnagar, and also from the Census of India 2011, Uttar Pradesh (District Census Handbook: Muzaffarnagar), Economic survey, and e-resources etc. Only CBs and PACSs are considered for the institutional credit flow to agriculture at the block level.

District Muzaffarnagar purposively selected for the study. There are 14 blocks in Muzaffarnagar district and among them Baghra block purposively selected for the primary data collection (survey), due to the resource constraints especially time and money. There are 46 villages in Baghra block and among those 11 villages are selected by using random sampling (lottery method). Thus, the selected villages are namely- Atali, Budina Khurd, Dholara, Harsoli, Kazikhera, Kutba, Lalukheri, Nagla Pithora, Nirmani, Pinaa, and Sonjhani. Random sampling is used for the sample selection of respondents (farmers) and 330 farmers who belong to three farm categories- small, marginal and medium are selected. From each farm category 10 respondents are selected from one village so 30 farmers per village are selected. Primary data are collected through survey method (interview schedule) from Baghra block of Muzaffarnagar district. The information related to the farmer's socio-economic profile; details of credit borrowing and utilization pattern are collected with the help of self-structured questionnaire through personal interview method. The field survey has been conducted during the time period from May to July 2014. In order to analyse the primary data simple statistical tool such as percentage, averages, mean, standard deviation, coefficient of variation etc. are used and this is followed by tabular and graphical presentation. Also some ratios have been calculated for the primary data analysis as to study the utilization pattern of credit obtained by the farmers: the proportion credit amount utilized for agriculture purpose in total borrowed credit amount.

$$\frac{\text{Credit Amount Utilized for Agricultural Purpose}}{\text{Total Credit Amount Borrowed}} \times 100$$

### **Result and Discussion**

The detail of utilization pattern of total credit obtained by the 330 farmers selected in the study area is given below in the table 1.1.

**Table 1.1: Detail of Utilization Pattern of Total Obtained Credit in Baghra Block (2012-13)**

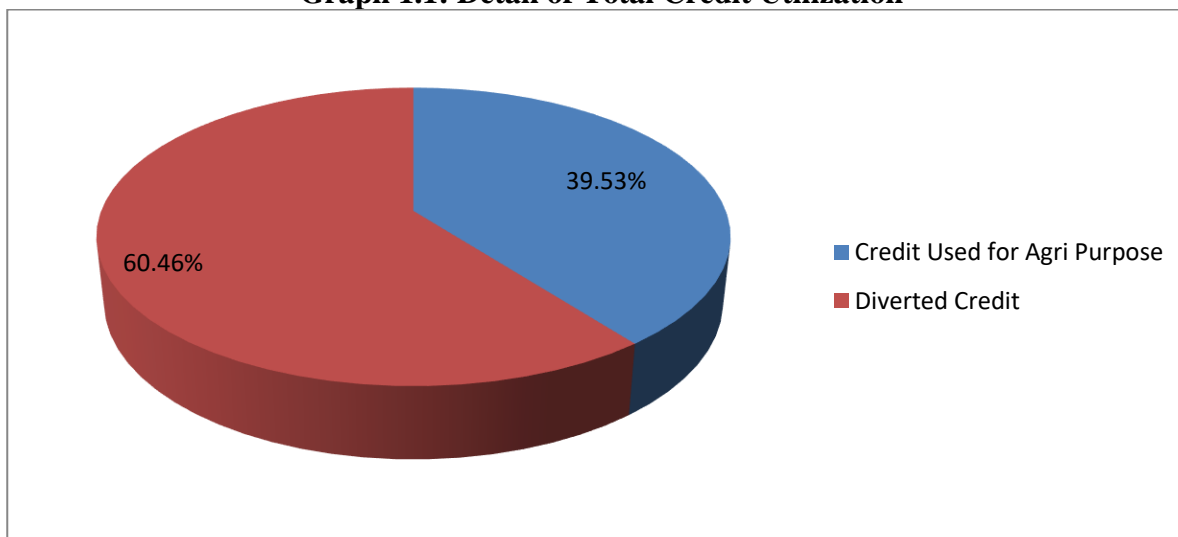
Category	Total	Average	SD	Coeff. of Variation	Min	Max
<b>Total Credit</b>	72814039	220648 (100)	146471	33.29	910	666115
<b>Credit Used for Agricultural Purpose</b>	28786595 (39.53%)	87232 (46.45)	88516	50.89	910	532700
<b>Diverted Credit (other than agriculture)</b>	44027444 (60.46)	134230 (53.54)	117289	43.82	0	500000

(Source: Compiled from Interview Schedule for Farmers for the year 2012-13).

Table 1.1 shows that total credit obtained by farmers in the study area is 72814039 rupees from which 28786595 rupees are used for agricultural purpose. The minimum credit used for agriculture purpose is 910 and the maximum is 532700. On an average 46.45 percent of the credit is used for agriculture purpose in the study area. Whereas the diverted amount of credit is 44027444 rupees out of total (72814039). The minimum diverted amount is 0 and the maximum is 500000. On an average 53.54 percent of the credit is diverted. It is deviate from 88516 and 117289 respectively for agricultural purpose and diversion. The more variations are found in credit used for agriculture purpose (50.89) than that for diverted amount (43.82).

Thus, it can be said that more than half of the credit amount has been diverted by the farmers which means it has not been utilized for the purpose it is sanctioned. It can be more clear from the below graph 1.1.

**Graph 1.1: Detail of Total Credit Utilization**



(Source: Compiled from Interview Schedule for Farmers for the year 2012-13).

This credit is availed from two different sources by the farmers (330) and the detail is given below in the table 1.2.

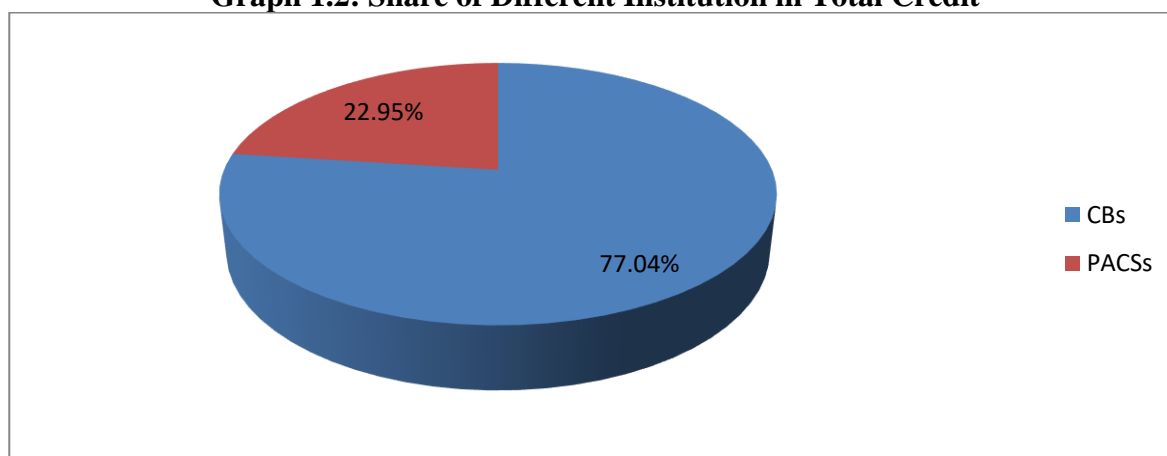
**Table 1.2: Total Credit obtained by Farmers from Different Sources in Baghra Block (2012-13)**

Source of Credit	Credit (Rs.)	% of the Total
PACCSs	16711039	22.95
CBs	56103000	77.04
<b>Total</b>	<b>72814039</b>	<b>100</b>

(Source: Compiled from Interview Schedule for Farmers for the year 2012-13).

The above table shows the total credit obtained by the farmers through different institutional sources (2012-13) and it is found that maximum credit (77.04 %) availed from the commercial banks and remaining (22.95 %) from primary agricultural societies. It is more clear from the below graph 1.2.

**Graph 1.2: Share of Different Institution in Total Credit**



(Source: Compiled from Interview Schedule for Farmers for the year 2012-13)

Next, the detail of proportional credit amount utilized by farmers in Baghra block is given below in the table 1.3.

**Table 1.3: Distribution of Credit Utilized by Farmers in Baghra Block (2012-13)**

CATEGORIES	I AGRICULTURE PURPOSE		II DIVERTED (other than Agriculture)	
	No of Farmers	%Share of Total Farmers	No of Farmers	% Share of Total Farmers
Class Interval of Borrowed Credit (in %)				
Less than 1	00	00	43	13.03
1 - 10	27	8.18	4	1.21
11 - 20	49	14.84	8	2.42
21 - 30	46	13.93	14	4.24
31 - 40	41	12.42	22	6.66
41 - 50	34	10.30	39	11.81
51 - 60	39	11.81	33	10
61 - 70	22	6.66	43	13.03
71 - 80	15	4.54	51	15.45
81 - 90	7	2.12	42	12.72
91 - 100	50	15.15	31	9.39

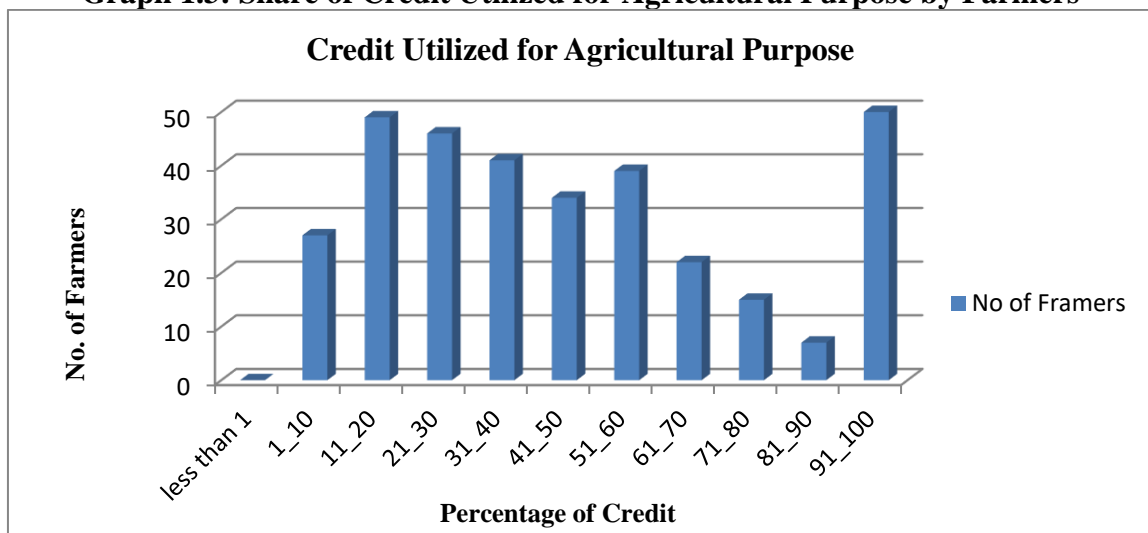
(Source: Compiled from Interview Schedule for Farmers for the year 2012-13).

Table 1.3 presents the proportional share of credit amount utilized for agriculture purpose and its diversion (used for other than agricultural purpose). It can be seen that around 91 to 100 percent of the

credit amount is used by maximum number of the farmers (50) which is 15.15 percent of the total farmers (330) and it is followed by the 11 to 20 percent category of the credit amount in which 14.84 percent (49) farmers exists. In other words, 60 percent (197) of the farmers are used up to 50 percent share of their borrowed credit for agricultural purpose and remaining 40 percent (133) used up to 100 percent.

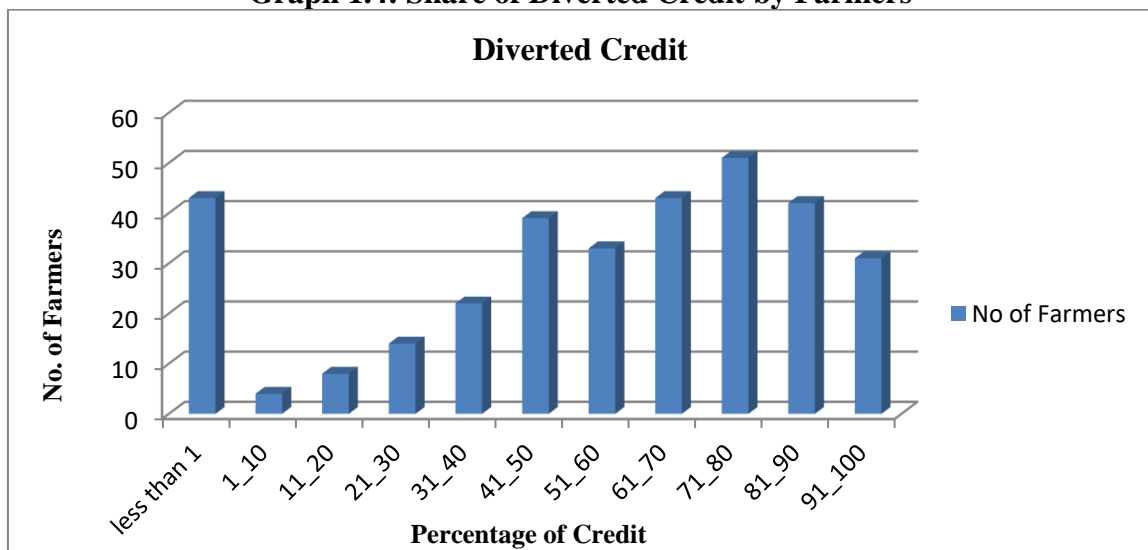
The second part of the table deals with the diverted credit amount by farmers, there are 13.03 percent (43) farmers who did not divert their borrowed credit that means they have utilized total obtained credit for agricultural purpose and remaining 86.97 percent (287) farmers diverted the borrowed credit. The maximum number of the farmers 15.45 percent has been diverted up to 71 to 80 percent of their borrowed credit amount and it is followed by 13.03 percent of the farmers which diverted about 61 to 70 percent of their credit. So, it is found that the very few (13.03%) farmers fully utilized the borrowed amount on the purpose for which it is actually given and the more (86.97) farmers diverted maximum portion of their borrowed credit which is on an average more than half (54%). It can be more clear from the below graphs (4.7 & 4.8) which presents the distribution of farmers according to the proportional utilization and diversion of credit.

**Graph 1.3: Share of Credit Utilized for Agricultural Purpose by Farmers**



(Source: Compiled from Interview Schedule for Farmers for the year 2012-13).

**Graph 1.4: Share of Diverted Credit by Farmers**



(Source: Compiled from Interview Schedule for Farmers for the year 2012-13)

The detail of the Distribution of Respondents according to Utilization of obtained Credit for different Purposes is given below in the table 1.4.

**Table 1.4: Distribution of Farmers According to Purpose-Wise Utilization of Credit (2012-13)**

Sr.	Items (Utilization)	No. of Farmers	% of Farmers
1.	For Meeting Cultivation Expenses (wage, rental charges etc.)	323	97.87
2.	For Purchasing Farm Equipment	46	13.93
3.	For Digging/Repairing Tube-wells/Wells/Canals	111	33.63
4.	For purchasing Fertilizers, HYV Seeds & Pesticides etc.	321	97.27
5.	For Farm construction Building, fencing, terracing etc.	-	-
6.	For Purchasing Cattle	56	16.96
7.	For land Purchasing	6	1.81
8.	For Repaying Post Loan	63	19
9.	For Children's education	167	50.60
10.	For Meeting Daily Household Expenditure	150	45.45
11.	For marriage and other Social Function	40	12.12
12.	Any other, Specify (Medical, House Construction, purchase Of Vehicle & Self-Business)	140	42.42

(Source: Compiled from Interview Schedule for Farmers for the year 2012-13).

Table 1.4 presents the distribution of farmers according to utilization of credit for 12 purposes (items) out of which first five are for agriculture and remaining seven shows the reason or area of diversion of Credit. There are three main agricultural purposes for which maximum number of farmers used their borrowed amount. For the first item (cultivation expenses) about 98 percent (323) of the farmers, out of the total (330), spend the borrowed amount. Second one is the item no. four (purchasing fertilizers, pesticides & HYV seeds) for that 97 percent (321), and the third one is the item no third (for digging/repairing tube-wells/wells/canals) for that 34 percent (111) of the farmers spend their borrowed amount. The minimum number of farmer's around 14 percent (46) used credit for item no. two (for purchasing farm equipment).

The main areas of diversion of credit to be found are children's education, daily household expenditure and any other which includes mainly house construction and medical for that 50.60 percent (167), 45.45 percent (150) and 42.42 percent (140) of the farmer spend their credit amount which is obtained for agricultural purpose to raise the farm production. The minimum number of respondents around 2 percent (6) diverted the obtained amount for the purpose of land purchasing and it is followed by purchasing cattle and marriage and other social function for that 17 percent (56) and 12 percent (40) of the respondents spend their credit. So, it is found that the main areas of agriculture are daily cultivation expenses (wages, rental charges etc), purchasing fertilizers, pesticides & HYV seeds and repairing the tube-wells, for that maximum number of the farmers utilized their obtained credit amount. Whereas

main areas of diversion to be found children's education, daily household expenditure and any other which includes mainly house construction and medical.

### Conclusion

Utilization aspect of credit is as important as its availability. So, it can be concluded from the above analysis that there is more than half of the obtained credit diverted by the farmers and the main areas of diversion are: children's education, daily household expenditure, house construction and medical expenses. Also, a very few (13.03) farmers fully utilized the credit for the agricultural purpose and the main areas of agriculture are found daily cultivation expenses (wages, rental charges etc.), purchasing fertilizers, pesticides & HYV seeds and repairing the tube-wells, for that maximum number of the farmers utilized their obtained credit amount. There is a high level of diversion of the credit amount due to the various reasons such as there is no continuous flow of income, lack of consumption credit and unavailability of credit for non-agricultural purposes. Therefore, lending institutions should focus on the supply of credit for non-agricultural purposes. There is a dire need to focus on that the institutional credit given for agricultural purpose should be fully utilized for the same. Farmers should be discouraged from a huge expenditure on house construction and social ceremonies through educational programs and others source of information. Also, assistance should be provided for how to utilize the credit in more productive manner.

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