

---

**DIVERSION OF COOPERATIVE CREDIT - A CASE STUDY OF  
CHITRADURGA DISTRICT IN KARNATAKA STATE**

---

Dr. G.B.Boraiah,

---

**ABSTRACT**

*Cooperative credit institutions are important constituents of the Indian financial sector in general and the banking sector in particular. But many studies have already proved that the loanee farmers do not use entire loan amount for the purposes for which they borrowed funds.*

*Once the credit is used for unspecific purposes, it not only results in low production and indebtedness of the farmer but also leads to the vicious circle of poverty. The diversion of loan to unproductive purposes has an equally adverse effect on the lending institutions that the recovery of the loan becomes difficult and this result in reduced lending capacity of the bank. Emphasizing the need for containing the Diversion R.B.I in its manual pronounced that “Whatever may be the range or extent of credit facility provided by institutions, co-operative or otherwise, it is essential that their lending policies are designed to help the production and at the same time ensure proper utilization of the money lent”.*

*It can be said that, improper utilization of loan makes actual production to fall short of targets on the one hand and on the other it may lead to spiraling price pressure in the country. This badly affects the repaying capacity of the farmers and it undermines the soundness of credit structure of financial institutions. Hence, here is an attempt to assess the purposes, causes and magnitude of diversion of credit by the loanee farmers who have got short term agricultural loans from the PACS affiliated to Chitradurga District Central cooperative Bank in Karnataka state and this study depends on primary data.*

**Key words:** *Diversion, regeneration, borrowed funds, unspecific purposes, vicious circle of poverty, lending policies, utilization.*

---

\*Assistant professor in Economics, AVK College for women, Davanagere

This article investigates in to the extent, purpose and the causes of Diversion of Cooperative credit in Chitradurga district by the loanee farmers.

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 3<sup>rd</sup> sector alternatives. Over 5, 00,000 cooperatives with membership coverage of about 220million is a strong presence. 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<sup>i</sup> and the Government is striving to reach credit in adequate quantity and at low interest to farmers when they need it. There is special emphasis on bringing all farmers, especially small farmers, under institutional credit<sup>ii</sup>. These statements emphasize the importance of cooperative credit in rural development and these cooperative credit institutions are important constituents of the Indian financial sector in general and the banking sector in particular<sup>iii</sup>. But many studies have already proved that the loanee farmers do not use entire loan amount for the purposes for which they borrowed funds.

Once the credit is used for unspecific purposes, it not only results in low production and indebtedness of the farmer but also leads to the vicious circle of poverty. The diversion of loan to unproductive purposes has an equally adverse effect on the lending institutions that the recovery of the loan becomes difficult and this result in reduced lending capacity of the bank. Emphasizing the need for containing the Diversion R.B.I in its manual pronounced that “Whatever may be the range or extent of credit facility provided by institutions, co-operative or otherwise, it is essential that their lending policies are designed to help the production and at the same time ensure proper utilization of the money lent”<sup>iv</sup>.

The diversion of credit to unproductive purposes has become a chronic disease in the agricultural credit delivery system. It is the fact that, the farmers do not use the full amount of loan for the agricultural purposes. It can be said that, improper utilization of loan makes actual production to fall short of targets on the one hand and on the other it may lead to spiraling price pressure in the country. This badly affects the

repaying capacity of the farmers and it undermines the soundness of credit structure of financial institutions. Hence, proper end use of credit is more important than the provision of adequate credit itself. Proper utilization of loan is one of the prime factors on the field of rural finance to boost up production<sup>v</sup>.

### OBJECTIVES OF THE STUDY

1. To know the purposes and causes of Diversion of cooperative credit.
2. To assess the extent of Diversion of Cooperative Credit by the loanee farmers.

### Methodology

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

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

Simple statistical tools like percentages, ratios and averages have been applied to arrive at inferences.

**Table 1 Diversion of crop loan in more irrigational facilities area**

(Amount in Rs.)

Category of farmers	Amount borrowed	Amount used for other activities (except agriculture)	Percentage of diversion of credit
Marginal farmers	1,25,130	31,282.5	25
Small farmers	3,63,780	76,394	21
Medium farmers	6,66,000	53,280	8
Large farmers	10,39,680	41,587	4
<b>Total</b>	<b>21,94,590</b>	<b>2,02,543.5</b>	<b>9.2</b>

Source: Field survey.

From the above table no.1 it is evident that, on an average the Diversion of loan was 9.2 percent in the more irrigational facilities area. The percentage of Diversion of loan amount varies among different farm size groups, in the case of marginal farmers

it was 25 percent followed by small farmers (21%), medium farmers (8%) and large farmers (4%).

On the whole, the percentage of Diversion was consistently declining with increasing land holdings. Diversion in case of large and medium farm groups was relatively less due to sufficient resource base for their agricultural operations compared to marginal and small farmers.

**Table 2 Diversion of credit in less irrigational facilities area**

(Amount in Rs.)

Category of farmers	Amount borrowed	Amount used for other activities (except agriculture)	Percentage of diversion of credit
Marginal farmers	2,97,900	1,34,055	45
Small farmers	6,22,200	1,30,662	21
Medium farmers	6,59,205	1,25,249	19
Large farmers	7,65,450	2,60,253	34
<b>Total</b>	<b>23,44,755</b>	<b>6,50,219</b>	<b>27.7</b>

Source: Field survey.

The data presented in table no.2 reveals us that, the amount of loan misused for unproductive activities was to the tune of 27.7 percent in the less irrigational facilities area. The percentage of Diversion varies among different category of farmers. In the case of marginal farmers Diversion rate was highest (45%) and the same is 34 percent in case of large farmers. But the percentage of Diversion is relatively less in small farmers (21%) and medium farmer's (19%) category. On the whole, Diversion rate was substantially high in less irrigational facilities area. It is very clear from the table no 1 and 2 that, the marginal farmers' misused higher percentage of loans as compared to other category of farmers and small farmers maintained same 21percent of diversion of cooperative credit in both the areas.

The percentage of Diversion of cooperative credit was not declining with increasing land holdings in less irrigational facilities area. Diversion rate in case of small and medium farm groups was relatively less but in case of marginal and large farmers it was relatively highest.

---

**REASONS FOR MISUTILIZATION ARE AS FOLLOWS:**

- Lack of proper training, marketing, transportation facilities, technology and 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 and 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<sup>vi</sup>.

Apart from above reasons the willful defaulting attitude of the farmers is extending its tentacles like octopus these days due to the cheap populist policies followed by the Modern Governments and as the Chitradurga district is a draught prone area where scanty rainfall is common irregular rainfall, mainly the inadequacy of credit and consumption requirements were main reasons of Misutilization in both the areas.

**EXTENT OF DIVERSION FOR DIFFERENT ACTIVITIES**

Many farmers do not use the credit borrowed from financial institutions for the productive purposes. Even small magnitude of credit diversion for unproductive activities endangers the very existence of co-operative credit institutions and there by the co-operative principles. Many things are responsible for this phenomenon in which some of them need special mention: the higher tiers have been forcing the ground level agencies to utilize credit for agriculture, No strict norms are found in the credit operations of the PACS, the in effective

supervisory mechanism will accentuate the problem of diversion of credit, The lower level credit agencies are interested in the recovery of loans rather than supervising the utilization of loans, The cooperative personnel do not inspect timely and no action can be taken against those who have misused the credit and the interference of politicians has spoiled the cooperative spirit among the rural folk. If the rural folk realize the benefits of cooperation, they would not dare to divert the productive credit.

It is observed from the field work that, more diversion of loan is found in the less irrigational facilities area than that of more irrigational facilities area. These days this Diversion of credit has become political, economic and social problem. If the concerned authorities really succeed to put an end to this menace, the productivity of agriculture certainly increases and thereby that will definitely improve the economic status of the farmers.

**Table 3: Amount of Diversion for other activities in more irrigational facilities area**

(Amount in Rs.)

Category of farmers	Household expenses	Social ceremonies	Health	Education	Others	Total
Marginal farmers	12,513 (40%)	10948.9 (35%)	2502.6 (8%)	--	5318 (17%)	31282.5 (100)
Small farmers	16,806.7 (22%)	20626.4 (27%)	11459.1 (15%)	1527.9 (02%)	25973.9 (34%)	76394 (100)
Medium farmers	14,385.6 (27%)	19713.6 (37%)	9590.4 (18%)	--	9590.4 (18%)	53280 (100)
Large farmers	14,139.6 (34%)	--	--	--	27447.4 (66%)	41587 (100)
<b>Total</b>	57,844.9 (28.56%)	51288.9 (25.32%)	23552.1 (11.63)	1527.9 (0.75%)	68,329.7 (33.74%)	202543.5 (100)

Note: Figures in the brackets represent percentages to the totals

Source: Field survey.

The data presented in the table no. 3 shows the Diversion pattern of credit for different activities except for the agricultural purposes. It is found that 9.2 percent of credit was diverted by the farmers in the more irrigational facilities area. According to the information elicited from the field survey the maximum amount of diverted funds was used for other activities (33.7%) followed by the household expenses (28.6%), social ceremonies (25.3%), health care (11.6%) and education (0.8%). Among the different categories of farmers, the marginal farmers utilized the highest percentage of the misdirected loan amount for the

household expenses (40%), small farmers used it for other activities (34%), medium farmers on social ceremonies (37%) and large farmers used it on other activities (66%).

The marginal farmers used diverted credit more on purchase of household utensils because their basic needs were not satisfied. The small farmers used it more for other activities as majority of these category of farmers were purchased vehicles some of them were gamblers and addicted to bad habits and small portion was used to pay off the old debt. In case of medium farmers more diverted credit was used for social ceremonies because all the basic needs were fulfilled and the agricultural activities in this category were developed, more importantly they were very much social status conscious. Large farmers used it for other activities like paying old debt, purchase of vehicles and creation of permanent assets.

**Table: 4 Amount of Diversion for other activities in less irrigational facilities area**

(Amount in Rs.)

Category of farmers	Hose hold expenses	Social ceremonies	Health	Education	Others	Total amount
Marginal farmers	26,811 (20%)	46,919.2 (35%)	34,854.3 (26%)	--	25,470.5 (19%)	1,34,055 (100)
Small farmers	28,745.6 (22%)	52,264.8 (40%)	27,439 (21%)	14,372.8 (11%)	7,839.7 (06%)	1,30,662 (100)
Medium farmers	50,099.6 (40%)	75,149.4 (60%)	--	--	--	1,25,249 (100)
Large farmers	41,640.5 (16%)	52,050.6 (20%)	20,820.2 (8%)	41,640.5 (16%)	1,04,101.2 (40%)	2,60,253 (100)
<b>Total</b>	1,47,296.7 (22.6%)	2,26,384 (35. %)	83,113.5 (12.8%)	56,013.3 (8.6%)	1,37,411.4 (21%)	6,50,219 (100)

Source:Field survey.

Note: Figures in the brackets represent percentages to the respective totals.

The table 4 depicts us the Diversion of loan for different unproductive purposes in the less irrigational facilities area. The main purposes as observed during the field survey were the social ceremonies, other activities, household expenses and education for which the loan was misused. Among the unproductive purposes the maximum loan amount spent was on the social ceremonies (35%) followed by household expenses (22.6%), other unproductive activities (21%), health (12.8%) and education (8.6%) and it were not consistent among the different category of farmers.

The marginal, small and medium farmers used the misdirected loan amount more for the social ceremonies because of the following reasons: low levels of education, low yield, incidence of frequent droughts, irregular and scanty rainfall are some of the reasons for this

trend. Apart from that, in this area the agricultural activities were less as compared to the more irrigational facilities area and here the farmers were either non engaged or partly engaged in the agricultural activities. The farmers intend to engage themselves in many social ceremonies for which they desire to spend more. The blind belief of the farmers leads to more Diversion of the loan amount for such unproductive activities that result in heavy indebtedness of the poor farmers.

## **CONCLUSION**

It may be concluded that the Chitradurga District Central Cooperative Bank has made good efforts to take the farming community consisting almost all categories irrespective of their size of land holdings on growth trajectory. Still, the farmers in less irrigational facilities area have not fully cope with the objectives of C.D.D.C.B, hence, they have diverted significant amount of funds for unproductive purposes.

## **REFERENCES**

1. Dr. S.Thamilarasan, “Repayment performance of farmer Borrowers” Indian Cooperative Review,Jan 2010,vol.47,No.3,P.208
2. Kurukshetra, vol.60, July 2012, Ministry of Rural Development, GOI, P.23
3. Avinash V. Raikar, “Cooperative Credit Institutions in India:An Overview”,Indian Cooperative Review, July 2006,vol 44,No.1,p 2.
4. RBI, “Manual on production oriented system of lending for agriculture”Bombay, 1972, p 99.
5. RBI, “Agricultural finance by commercial banks, proceedings of the international conference on Agriculture cooperation”, New Delhi,1968,p.43
6. S.B.Verma et al (2006), “Rural credit and Cooperative development”, Deep and Deep Publications Pvt ltd.,New Delhi.,p.192.

---

<sup>i</sup> Dr. S.Thamilarasan, “Repayment performance of farmer Borrowers” Indian Cooperative Review,Jan 2010,vol.47,No.3,P.208

<sup>ii</sup> Kurukshetra, vol.60, July 2012, Ministry of Rural Development, GOI, P.23

<sup>iii</sup> Avinash V. Raikar, "Cooperative Credit Institutions in India:An Overview",Indian Cooperative Review, July 2006,vol 44,No.1,p 2.

<sup>iv</sup> RBI, "Manual on production oriented system of lending for agriculture"Bombay, 1972, p 99.

<sup>v</sup> RBI, "Agircultural finance by commercial banks, proceedings of the international conference on Agriculture cooperation", New Delhi,1968,p.43

<sup>vi</sup> S.B.Verma et al (2006), "Rural credit and Cooperative development", Deep and Deep Publications Pvt Ltd.,New Delhi.,p.192.