Chapter-V

UTILIZATION

AND

BENEFITS OF LOAN
After having studied the performance of selected commercial banks, the present chapter makes an attempt to study another important aspect of agricultural finance, i.e. the utilization and benefits of loan. This chapter has been divided into four sections. Section one is an attempt to analyse the utilization of loans by the farmers: some issues. Section two is the study of the role of extension, family size and its nature in utilization of farm credit. The third section throws light on the benefits of credit, as regards cropping pattern and capital formation. The fourth and final section discusses credit gap, adequacy of credit and the utilization and misutilization of loans by the beneficiaries.

The success of banking institutions and development of the farming community depends on the productive utilization of loans. The credit programme becomes meaningful only when it is supported by proper utilization of loans for which they are meant. Whatever may be the extent of credit facility provided by banks or other financial institutions, it is essential that their lending policies are designed to help the production and at the same time to ensure proper utilization of the credit supplied.
The proper utilization of loans can be defined as the use of the funds exclusively for the purpose for which they were sanctioned. The use of funds for any other purpose, desirable or undesirable, has, therefore, been described as 'misutilization' or 'diversion'. The diversion of funds away from the proposed or intended use may defeat the very purpose of the loan and may have several adverse implications for the borrowers as well as the lender.

Section-I

Utilization of Loan at the Farm Level: Some Issues

Bank credit, i.e. money by itself can grow nothing. To expand production in any activity, borrowed funds must be spent by farmers/beneficiaries on physical inputs such as equipments, fertilizers, seeds, pesticides, irrigation, labour, spare parts, etc. Beneficiaries should use the credit in the proper way for increasing output. The output must then be transported to market and sold to the consumers. After availing themselves of the credit by the rural families, its proper utilization depends upon so many factors. In other words, credit put in the hands of farmers can be used to purchase the productive inputs but, whether this will be done or not depends upon the educational level and the understanding capacity of the farmers, family system, availability of extension, technology, markets, infrastructure, information and attitudes, etc. Further, proper utilization of the loan also depends upon Government
and banking policies, attitudes of Government officials and bank personnel towards agriculture. In the present study, an attempt has been made to know the factors which are essential complements of credit in promoting agricultural development and better utilization of credit.

1) Limited Applicability of New Technology:

There are innumerable opportunities for putting credit to productive use in agriculture. They range from merely applying fertilizers, where none was used before, to the use of more advanced elements of the technology associated with the Green Revolution including multiple cropping. But the latter are often limited to farmers in specific regions or to areas with particular natural endowments. The use of High-Yielding Varieties and multiple cropping technologies are now limited to irrigated and high rainfall areas with mild temperature. For others, it is possible to develop yield-preserving rather than yield-increasing technologies. But more basic research is urgently needed to open new technical horizons for agriculture, since availability of arable land is limited. In other words, in order to utilize credit in a proper manner, appropriate technologies should be made available. In the field of subsidiary occupations, new programmes and measures have been implemented for improving productivity. New programmes like provision of stud bulls, veterinary hospitals, medical aid, etc. have been introduced. But the number of families availing
themselves of these facilities is very important for the successful implementation of such schemes and for better utilization of resources including credit.

ii) Economic and Social Constraints:

Before implementing or adopting technologies, one has to consider the economics of the programmes. New grain varieties, although producing larger harvests in physical terms under favourable conditions yield less than the traditional varieties especially under unfavourable circumstances. Many agricultural innovations present risks. For example, the High Yielding seeds show a greater yield variation than the varieties they displace. Under ideal conditions, the output may be more, but under adverse weather conditions, the new seeds may yield even less than traditional varieties. Many of the traditional varieties have evolved over time or were developed through early research work to grow under wider extremes of climatic conditions. The risks associated with the new technologies may threaten economic survival, especially of small farmers in marginal ecological areas, who live close to subsistence levels. This reduces the attractiveness of new production technology. Further it leads to misutilization of credit. The ability of the small farmers to absorb the shock is extremely limited, unlike that of the large farmers. If unfavourable weather conditions occur, he not only loses
capital but has to borrow both for future production and present consumption purposes.

In the absence of adequate marketing infrastructure adoption of new technologies and use of credit will also be limited. Price policies such as unrealistic exchange rates, export duties and artificially low prices are designed only to favour urban consumers. They also reduce the profitability of marketing additional output. It is an accepted fact that satisfactory delivery and marketing systems and pricing policies greatly facilitate appropriate utilization of credit, credit operations and minimise credit requirements.

Social factors like educational level of farmers, joint family system, family status, traditions, customs, attitudes, understanding capacity, willingness to work etc. also influence the smooth process of utilization of credit.

iii) Non Credit Policy Requirements:

To be successful in expanding production and for better utilization of credit, government policy must seek to relax constraints whether financial or non-financial. For example, where the constraint is ignorance, the Government's programme should incorporate some forms of extension service. Extension services help in better utilizing the credit and for increasing farm output. Where it is a lack of experiment with a particular input or crop, the programme
might include subsidy on the input or a support price for the output to make farming more profitable. If the constraint is an aversion to risk, crop insurance may be used to reduce losses from low yields or support price may reduce the risk of price decline. In countries that pursue such policies, improving the terms of trade for agriculture should be given the highest priority which would probably have substantial impact on output and consequently better utilization of the loan amount and the demand for credit.

In order to utilize credit in the proper manner, programmes other than the above-mentioned have to be adopted. Such programmes are: to bring in agrarian reforms, to establish distribution and servicing centres, to provide training and demonstration, and to supply efficient transportation facilities, etc. Timely distribution of credit along with other inputs will certainly help in proper utilization of them. Delay in distribution normally leads to misutilization of credit and other inputs. In the same manner, training and demonstration will also help in proper utilization of farm resources. In addition, programmes not directly connected with agriculture, such as health and education enable the efficient use of farm credit.

Joint inspection and follow-up of credit schemes and scrutiny of the loan applications both by the bank officials and the Government officials is necessary for the successful utilization of credit at the farm level.
The above analysis would suggest that if the loans advanced to farmers are to be properly utilized, the following preparations should have been made:

i. Facilitating timely availability of credit to support agricultural development programmes,

ii. Skill formulation and skill upgrading programmes to promote self-thinking and understanding amongst the farmers,

iii. Promoting marketing support to ensure the availability of production programmes and insulating the agriculturists from exploitation in the marketing of their produce,

iv. Realistic pricing policy for agricultural products,

v. Timely and sufficient distribution of modern inputs at the door steps of the farm families,

vi. Provision of extension and infrastructure facilities in rural areas,

vii. Provision of appropriate and suitable inputs/technologies at reasonable prices, and

viii. Supervision and follow-up measures.

All these programmes will certainly help in the proper utilization of farm loans and increasing farm productivity.
After having reviewed the role of the various factors and services for the better utilization of credit, the next section discusses the role of extension, nature and size of family in utilization of farm loan.

Section-II

Role of Extension, Nature and Size of Family in Utilization of Farm Loan:

The present section is an effort to study the role of extension, nature and size of family in utilization of farm loan. It has been already noted above that certain factors and services are essential for both modernization of agriculture in general and better utilization of credit in particular. "Certain factors" include services like extension, marketing, transportation, training, repair and servicing, demonstration, nature and size of family, banking services other than credit, etc. These factors greatly influence the utilization of credit and the development of agriculture.

However, the present study does not cover all the factors and services. It has been thought desirable to limit the present study of the agricultural services to a few factors which appear important from the view-point of the proper utilization of commercial bank credit by the farmers. Accordingly, the present study is confined to the
study of the essential factors, viz. extension, family size and its nature.

Before analysing the effect of the above said factors on utilization and benefits of loan, the following paragraphs throw light on the importance of extension, nature and size of family in the process of utilization of credit.

Role of Agricultural Extension in Utilization of Farm Credit

 Provision of extension facilities to the farming community is of great importance for efficient utilization of credit, new farm inputs etc. and thereby for modernizing traditional agriculture. In other words, as progress in agriculture ultimately depends upon the proper use of credit and adoption of improved farm inputs by the farm families, their education and extension are of vital importance. Extension facilities would include reaching new information to the farmers about the availability of institutional credit, the new technologies like fertilizers, seeds, pesticides etc. and training them in the practical use of these inputs "..... it tends to deal with practical information that is useful to rural people in helping to solve their daily problems, especially those relating to agricultural production. In its dissemination of knowledge the extension system may concern itself with a curriculum
based on the needs and interests of the adult citizens of the area served."

Various studies by scholars like Mukhopadhyay, Dermott and Benor have pointed out the innumerable functions of the extension agency. These are: (i) spreading information about the new inputs, (ii) providing advisory assistance and training in the use of these inputs, (iii) changing the attitude of the rural people, (iv) increasing their resourcefulness, (v) developing leadership in the rural sector, (vi) assisting in getting and utilizing of input, and (vii) preparing them for the greater responsibilities of the future.

The term extension has become very popular in recent years in the context of agricultural development in particular and rural reconstruction in general. Its necessity arises mainly due to lack of awareness among the farmers about modern inputs and farm practices. Every year new inputs are released and the nature of these are almost continuously changing. Further, the timely availability of credit is of great importance for the proper utilization of the same. It must be noted, in this context, that the timely availability of credit will help the farmers to utilize modern farm inputs. For the farmers, extension in the form of adult education, technical advice and material services are essential for getting and utilizing of credit. Extension workers will have to provide information like
availability of loan application form, availability of credit from institutional agencies, various schemes adopted by financial institutions, rate of interest charged by various credit institutions, etc. This type of extension, on the one hand reduces the importance of money-lenders and on the other enables the farmers to avail themselves of institutional credit.

The links between extension and input of supplies and credit need to be carefully developed. In most areas where this extension approach has been adopted, farm management practices were poor. While extension initially concentrated on these practices, purchased inputs and hence credit were of relatively low priority. But soon the extension service starts recommending increasing amounts of purchased inputs. To be able to cope with these demands, the input supply and credit organizations/institutions should also be strengthened. It is a matter of sequence. Once the extension service is strong, pressure from farmers to receive timely supply of inputs and credits will be strong and then it will be much easier to improve these services.

The extension service can be of great assistance in improving the effectiveness of the supply and credit agencies. First, it helps generate a larger demand which increases the business volume and viability of these agencies. Second, it provides farmers with information on
where to purchase inputs and what the prices are, where and how to apply for credit, and how such credit and inputs will augment the farmers' incomes. Third, it can provide supply agencies with rough estimates of the demand for inputs in the area. In addition, it can assist credit agencies in developing per hectare credit norms for crop production loans. It may be pointed out in this connection that extension workers in most of the less developed countries are technically incompetent and incapable of giving correct advice to the farmers, "... the agricultural extension staff are virtually careless, incapable of giving the sophisticated advice which is the only advice worth giving, and devoted not to the development of their areas but to their own farms and interests... extension staff work only about five hours daily... concentrate mainly on a few relatively accessible villages." A study by Rajgopalan and Singh clearly points that proper and adequate instructions are not given by the village level workers for the proper utilization of credit and other inputs. Experts from the Agricultural Department, Government of Karnataka, have opined that extension workers are not helping farmers in getting institutional credit. Therefore, the lowest levels of agricultural extension staff have to be well-equipped with all necessary knowledge with regard to the availability of institutional credit, agricultural inputs and their use at the farm level. Further, they must also know the requirements of the local people and the agro-climatic
conditions of the area in which they serve. Added to this, they must also have a good rapport with the farm families.

The extension worker would have to be well informed/equipped (which he is often not in an underdeveloped country) with the essential knowledge of the latest and non-traditional agricultural inputs, techniques etc. He must also have an adequate knowledge of the social, economic, agro-climatic conditions and local needs to enable him to educate the farm families.

In Goa, the extension work is performed by the village level workers. He is the person who comes in day-to-day contact with the farmers. As already observed, he is the person who takes all resources to rural areas and teaches farmers their use at the farm level. Thus, he is the person who is mainly responsible for extending the information to the cultivators.

Role of Family Size and its Nature in Utilization of Farm Credit:

The family size and its nature play an important role in utilization of farm resources and increasing farm productivity. It is to be noted that larger the family size, greater will be the expenditure. Under such circumstances, the chances of misutilization of loan by the borrowers are more. Similarly, the joint-family system is another retarding factor in proper utilization of credit.
The institution of joint-family system has existed in all pre-capitalist societies. In India where social relations in the country-side are still pre-capitalist, the joint-family system is prevalent even today. In cities, however, the process of its disintegration has started. One of the serious demerits of the joint-family system is that it induces young couple to have children, though they may not be in a position to support them. In a joint-family system their economic burden is carried by the earning members. This is inconceivable in any developed society where joint family system no longer exists. In these societies, the child, in any case, has to be supported by the parents and not by anybody else. The individual family system, as it exists in the West, discourages people from marrying until they are settled, and when they marry, they often avoid having children as long as they cannot afford certain amenities of life. In India, where the unitary family system has not yet become common in rural areas, postponing having children early has not yet become common.

Another serious point worth noting is that the joint family system acts as a check on savings, investment, mobility, risk-taking, capital formation etc. In joint-family system all family members will have to act according to the will and wish of the head of the family. This discourages other members of the family from taking independent decisions.
Similarly, occupational and geographical mobility is not so simple in the joint-family system. This system appears to be handicapped in altering the cropping pattern in favour of commercial crops. The handicaps of the joint families have been discussed by Shivamogi as the inability to move from one occupation to another, inability to utilize properly the loan, inability to repay, inability to save and invest, etc. The other important defects of the joint-family system are: economic burden of age-olders, non-workers, widows, children, etc.

Thus to conclude, it may be said that the size and nature of the family is an important factor which influences the utilization of the loan in particular and agricultural development in general.

Section-III

Benefits of Loan:

In the present section an attempt has been made to assess the benefits of loan utilization by the farmers with regard to cropping pattern and capital formation. Before discussing the benefits, it is appropriate to know the importance of cropping pattern, capital formation and savings in the process of overall economic development.
(i) Cropping Pattern:

Cropping pattern means the ratio and proportion of area under different crops, the rotation of crops and area under double cropping in the region or in the country. P.V. John states, "The term cropping pattern indicates the product mix or the crop mix that the cultivator gets from his land." The analysis of this is necessary for identification of the major crops that are grown in the district or in the region by its farmers or cultivators.

Further, any change in the cropping pattern may reflect the influence of demand arising from an increase in general, in the level of income and also because of the development of agro-industries. With rising incomes, the demand for important non-food crops would increase at a relatively faster rate and similarly among food crops there would be a continuous shift in consumption of food grains in favour of superior cereals.

The farmers generally produce two types of crops, viz., (a) food crops and (b) commercial crops or non-food crops. The study of these two would reveal the stages of agricultural development and the nature of the economy. It is observed that the larger the area under commercial crops, greater will be the development. Various studies by scholars like Sinha, Murthy, Sarma, etc. have clearly pointed out the role of commercial crops in increasing
Prahladachar\textsuperscript{16} in his empirical study observed, "Cropping pattern is an important factor which can explain the rural income differences within and between the regions. Changes in cropping pattern may be taken as responses to changing economic, technological and institutional factors."

**Capital Formation**

Capital formation refers to the addition in the stock of real capital goods such as tools and equipment, machines, transport facilities, raw materials, plants and equipment, etc. which can increase the efficacy of productive efforts. According to the United Nations Report,\textsuperscript{17} "Capital formation is the expenditure for machinery, equipment, buildings and other constructional works... Measured in this fashion, capital formation is related to increase in the production capacity of an entrepreneur." Thus capital formation reflects the capacity and the structure of the production process in the agricultural sector. Capital formation is the act of the Government and also of the individuals, as these two parties are involved in promoting agriculture. It includes expenditure on land reclamation, land clearance, irrigation and other related variables which are connected physically (directly) in increasing the productive capacity and in changing the structure of the agricultural sector.
In a broader sense, the concept of capital formation in agriculture includes the investment made in research, education and technical training which necessarily contribute towards increasing the productive capacity of the agricultural sector to a greater extent. Southworth and Johnston explained the role of capital formation in the agricultural sector in the following words, “Exclusive preoccupation with physical capital has now been replaced by a more sophisticated view of the growth process. Moreover, capital formation must not only raise the total productive capacity of the economy, but also lead to changes in agriculture.” Thus capital formation in agriculture reflects both the stage of its development and also the way for further development.

The overall picture of capital formation should take into account the investment made by the farmers also. The investment by farmers is governed by many factors. Some of them are: (1) Profitability of the investment (2) Availability of certain basic infrastructure (3) Price control (4) The availability of finance.

Among the above four factors, the last one, i.e. the availability of finance is a very important one. Further, the degree or the rate of capital formation is affected by other factors like family size, nature of the family, working and non-working members in the family, etc. In other words, smaller the size of the family (other things
remaining constant), higher will be the rate of capital formation and *vice versa*. Similarly, higher the percentage of working members, higher will be the savings and capital formation.

**Effect of Credit and Extension on Cropping Pattern:**

In the following paras an attempt has been made to find out the effect of credit and extension on cropping pattern. Other factors excluding credit and extension influencing the cropping pattern are not considered. Further, the study is restricted to probe into the effect of extension and credit on cropping pattern of farmers. Landless borrowers are excluded.

The following aspects are stressed to a greater extent:

1. To ascertain the number of farmers who know the extension facilities,
2. To point out the number of farmers who have received the extension, and
3. To know the effect of extension and credit on cropping pattern.

The number of farmers who know the availability of extension facilities and the number of farmers who have changed the cropping pattern are presented in Table 5.1.
Table 5.1

Number of Selected Farmers who have been Benefitted from the Extension Workers

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Number</th>
<th>Percentage to the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Number of farmers who availed themselves the extension services</td>
<td>28</td>
<td>20.74</td>
</tr>
<tr>
<td>2</td>
<td>Number of farmers who did not avail themselves the extension services</td>
<td>107</td>
<td>79.26</td>
</tr>
<tr>
<td>3</td>
<td>Total number of cultivators</td>
<td>135</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Field Survey
Note: Landless labour beneficiaries are excluded.

It is obvious from Table 5.1 that out of 135 cultivator borrowers, only 28 borrowers have availed themselves of the extension services and 107 cultivators did not take advantage of the extension services. It is discouraging to note that of these 107 cultivators, 46 had not even heard of the extension services. 61 farmers knew the availability of extension but had not availed themselves of the services. As a result the change in cropping pattern is very slow.

Following is the analysis of effect of credit with extension and without extension on cropping pattern of cultivators.
Table 5.2
Effect of Credit and Extension on Cropping Pattern of Cultivators

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Number</th>
<th>Percentage to the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Number of beneficiaries who have changed the cropping pattern</td>
<td>17</td>
<td>77.27</td>
</tr>
<tr>
<td></td>
<td>after availing themselves of the extension services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Number of beneficiaries who have changed the cropping pattern</td>
<td>5</td>
<td>22.73</td>
</tr>
<tr>
<td></td>
<td>without the help of extension workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Total beneficiaries who have changed the cropping pattern</td>
<td>22</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Field Survey

Table 5.2 reveals that only 22 borrowers changed their cropping pattern in favour of plantation crops like coconut (Tali and Banavali), cashewnut (Vengurla and local), mango, rubber, pineapple, cauliflower, cabbage, chillies, etc. Out of 22 farmers who changed the cropping pattern, two have changed for rubber plantation, two for mango, one for cashew, eight for coconut cultivation like 'Tali', 'Banavali' etc., one for pineapple, one for arecanut and seven for High Yielding Varieties of rice like 'Jaya', 'IR-8', 'Jyoti', etc.

Out of 22 farmers who have changed the cropping pattern, 17 (77.27%) had taken extension services and after that they had changed the cropping pattern. And 5 farmers have
changed the cropping pattern without the help of extension workers. This is due to the demonstration effect.

Another interesting observation can be made from Tables 5.1 and 5.2 and that is out of 28 cultivator borrowers who had taken the extension, 17 (60.71%) borrowers changed the cropping pattern and out of 107 cultivator borrowers who did not take the extension services, only 5 (4.67%) have changed the cropping pattern. That means credit along with extension has a greater impact on cropping pattern.

Thus, it is clear from Table 5.2 that supply of credit along with extension helps the farmers to change the cropping pattern. When farmers are supplied credit without extension facilities, there are less chances of change in the cropping pattern.

To conclude, it can be argued that credit and extension certainly induce farmers to adopt new cropping pattern. Further, it is found from the present study that simply extending credit will not help in changing the cropping pattern and enhancing the income of the farmers. Therefore, it is suggested that credit and extension should be extended simultaneously.

Effect of Credit and Family Size on Capital Accumulation

To what extent capital accumulation can be achieved depends on the size and nature of family of the borrowers.
The data presented in Table 5.3 throws light on the nature and size of the families of respondents and the proportion of working and non-working members in them. Columns 4 and 8 of the table reveal that out of 180 families 16 were joint and 164 were single families. Of 16 joint families, two were in the range of 6-10 members and three were in the range of 11 and above. Out of a total 137 members in these joint families, 47 were working members and 90 were non-working. Whereas in the single families, out of a total 1019 members, 576 were working and 443 non-working members.

Table 5.3
Number of Working and Non-Working Members in the Families and Nature of Respondent Families

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Number of members in the range of families</th>
<th>Number of families</th>
<th>Number of Working members in joint families</th>
<th>Number of Non-working members in joint families</th>
<th>Total members in joint families</th>
<th>Number of Working members in single families</th>
<th>Number of Non-working members in single families</th>
<th>Total members in single families</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1-5</td>
<td>115</td>
<td>2</td>
<td>4</td>
<td>10</td>
<td>113</td>
<td>314</td>
<td>558</td>
</tr>
<tr>
<td>2</td>
<td>6-10</td>
<td>61</td>
<td>11</td>
<td>32</td>
<td>59</td>
<td>91</td>
<td>50</td>
<td>193</td>
</tr>
<tr>
<td>3</td>
<td>11 &amp; Above</td>
<td>4</td>
<td>3</td>
<td>11</td>
<td>25</td>
<td>36</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>180</td>
<td>16</td>
<td>47</td>
<td>90</td>
<td>137</td>
<td>164</td>
<td>576</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>443</td>
<td>1019</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey

The percentage of working members in joint families is 34.31 and in single families it is 56.53. The percentage of
non-working members in joint families is 65.69 and in single families it is 43.47. This analysis shows that non-working members are more in joint families and less in single families. During the course of field work, three joint families reported that some members in their families were involved in politics. They wasted their time in going to Panaji and other places and did not contribute anything in productive activities. On the basis of the above analysis of Table 5.3, it is clear that the proportion of working members is more in single families and less in joint families. As a result the single families will be more enthusiastic to adopt new methods of production and utilize the loans productively. Detailed discussions were held with the heads of joint families during the course of field work. Two heads of joint families opined that due to non-cooperation, frequent quarrels, mis-understanding and unproductive use of a part of the borrowed amount by some family members, the credit amount was not utilised fully for productive purposes in their families. Further, the manager of the State Bank of India, Agonda stated that in joint families normally credit was used for unproductive purpose and the tendency of unproductive utilisation of loan was less in single families. Single families also saved and invested more on capital assets. This is clear from the following analysis of Table 5.4.
Table 5.4
Number of Joint and Single Families Invested on Real Capital

<table>
<thead>
<tr>
<th>Number of members in joint families</th>
<th>Number of joint families invested on real capital</th>
<th>Number of single families</th>
<th>Number of single families invested on real capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 5</td>
<td>2</td>
<td>113</td>
<td>55</td>
</tr>
<tr>
<td>6 - 10</td>
<td>11</td>
<td>50</td>
<td>13</td>
</tr>
<tr>
<td>11 &amp; Above</td>
<td>3</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>164</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Field Survey

It is obvious from Table 5.4 that out of 16 joint families, only two (12.5%) families invested in real capital, whereas out of 164 single families, 68 families (41.46%) invested in real capital. Totally 70 families (38.89%) including joint and single utilised their loans for capital formation. Of the two joint families which invested on capital, one purchased a fishing net and one purchased a pumpset. Out of 68 single families which invested in capital, 21 purchased pumpsets and sprinklers, two had got a well sunk and repaired, nine had put bunds on their land, 29 borrowers bought nylon nets for fishing, five bought refrigerators and cold storages, one fisherman bought a motorboat and one borrower constructed a cowshed. It may be seen from this table that as many as 68 (97.14%) families out of 70 who invested in capital were single families.
This proves that there is a direct relationship between the single family and capital formation. The rate of capital formation will increase if there are a large number of nuclear families in the rural areas.

Further, it is also obvious from the table that out of 113 single families, (having members in the range of 1-5) 55 (48.67%) invested in capital. And 13 (26%) out of 50 single families (having members in the range of 6-10) have invested in capital. This proves that smaller the size of a family, higher is the rate of capital formation. Therefore one wonders whether the disintegration of joint families into nuclear ones should be welcomed in India.

Section-IV

Utilization of Loans by the Selected Beneficiaries

After having studied the benefits of loan, this section discusses the utilization and misutilization of loans by the beneficiaries.
Table 5.5
Utilization of Loans by the Selected Beneficiaries

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Number of borrowers</th>
<th>Percentage of borrowers to the total</th>
<th>Total amount (Rs.)</th>
<th>Average amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Credit used for the purpose taken</td>
<td>168</td>
<td>93.33</td>
<td>909240</td>
<td>5101.33</td>
</tr>
<tr>
<td>2</td>
<td>Credit not used for the purpose taken</td>
<td>12</td>
<td>6.67</td>
<td>68000</td>
<td>377.77</td>
</tr>
<tr>
<td></td>
<td>Total credit given</td>
<td>180</td>
<td>100.00</td>
<td>977240</td>
<td>5429.11</td>
</tr>
</tbody>
</table>

Source: Field Survey

Table 5.5 infers that 168 borrowers i.e. 93.33 per cent used the credit for the purpose for which it was sanctioned by the commercial banks. However, 12 (6.67%) borrowers diverted the use of credit and did not utilize the credit for the purpose for which it was lent. Out of Rs.977240 sanctioned to the 180 selected beneficiaries, Rs.68000 were diverted.

In order to ensure the proper use of loans, the field staff has to build up a close and continuous contact with villagers, both borrowers and non-borrowers. Opportunity should be taken during each visit, irrespective of the specific purpose of such a visit, to talk to as many people in the village as possible. As it is difficult to meet individually a very large number of beneficiaries each time,
it should be the endeavour of banks to hold meetings. Efforts should be made to encourage the villagers to be free and frank in talking about their problems. It is necessary to create among them a sense of faith and confidence about the bank's keenness and anxiety to improve their economic conditions.

The villagers are generally suspicious about outsiders and unless confidence is built up among them, they are bound to be directed towards establishment of contacts and rapport between the bank and the villagers.

Misutilization of Loan

If the credit is used properly, it acts as a stimulant to increase the economic as well as the social standard of the farmers. Any fraction of the loan amount used for the purpose other than that for which it is taken amounts to misutilization. Diversion of credit to unproductive use by the borrowers has become a common problem. Several studies including that of Bhat, Kadam, and the Standing Advisory Committee of the Reserve Bank of India have come to the conclusion that the misutilization of loan is a phenomenon which has been present in the agricultural credit system for long. The magnitude of diversion, i.e. the misutilization of loan is given in Table 5.6. However, only 12 borrowers misutilized the loans in the present study.
### Table 5.6
Extent of Misutilization of Loan by the Selected Beneficiaries

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Purpose for which amount diverted</th>
<th>Number of borrowers</th>
<th>Amount diverted</th>
<th>Percentage to the total amount sanctioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Consumption</td>
<td>4</td>
<td>25000</td>
<td>2.56</td>
</tr>
<tr>
<td>2</td>
<td>Repairing house</td>
<td>3</td>
<td>12000</td>
<td>1.23</td>
</tr>
<tr>
<td>3</td>
<td>Repayment of debt</td>
<td>1</td>
<td>10000</td>
<td>1.02</td>
</tr>
<tr>
<td>4</td>
<td>Marriage purpose</td>
<td>1</td>
<td>5000</td>
<td>0.51</td>
</tr>
<tr>
<td>5</td>
<td>Medical purpose</td>
<td>2</td>
<td>6000</td>
<td>0.61</td>
</tr>
<tr>
<td>6</td>
<td>Buying of gold ornaments</td>
<td>1</td>
<td>10000</td>
<td>1.02</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>12</strong></td>
<td><strong>68000</strong></td>
<td><strong>6.96</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey

It is clear from the above table that out of 12 loans that were misutilized, four borrowers used the loans for consumption purposes. Of these four borrowers one used the loan amount of Rs.8,000 for buying a scooter, two borrowers used it for meeting day-to-day expenses and one borrower frittered away the money on alcoholic consumption, three borrowers used loans for repairing houses, one borrower used the loan amount for a daughter’s marriage, two borrowers used it for medical purposes, one borrower for buying of gold ornaments. These 12 borrowers misutilized Rs.68,000 (6.96% of the total loan sanctioned).
The present study found the following reasons for misutilization of credit:

1. Pressing household needs (below subsistence),
2. Sickness in the family,
3. Lack of proper housing,
4. Lack of proper training regarding commercial banking principles,
5. Lack of proper supervision of loans,
6. Untimely financed
7. Lack of emphasis on the socio-economic characteristics of borrowers while financing, and/or
8. Imitating the modern style of living of higher income group leading to high consumption expenditure.

Utilization of Incremental Income:

Interesting information revealed from the survey data, relates to the utilization of incremental income by the borrowers (Table 5.7).
Table 5.7
Utilization of Incremental Income by Borrowers

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Sources of Utilization</th>
<th>Number of borrowers</th>
<th>Percentage to the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Consumption</td>
<td>93</td>
<td>51.67</td>
</tr>
<tr>
<td>2</td>
<td>Purchase of land and construction of housing</td>
<td>7</td>
<td>3.89</td>
</tr>
<tr>
<td>3</td>
<td>Savings</td>
<td>18</td>
<td>10.00</td>
</tr>
<tr>
<td>4</td>
<td>Agricultural Development and purchase of agricultural machineries</td>
<td>38</td>
<td>21.11</td>
</tr>
<tr>
<td>5</td>
<td>Establishing shops or other business</td>
<td>2</td>
<td>1.11</td>
</tr>
<tr>
<td>6</td>
<td>Conspicuous consumption</td>
<td>1</td>
<td>0.55</td>
</tr>
<tr>
<td>7</td>
<td>No increase in incremental income felt by farmers</td>
<td>21</td>
<td>11.67</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>180</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey

Table 5.7 makes it clear that the traditional attraction of the purchase of land or construction of housing is not so pronounced among the farmer-borrowers. A major part of the incremental income was used for consumption purpose like necessaries and comfortable goods such as buying of better food articles, clothing, medical care, etc. As many as 38 borrowers ploughed back the money for agricultural development with a view to get more production in future. Nearly 21 farmers did not realize any increase in the income due to the following reasons:
1. Death of milch animal bought out of loan
2. Plantation of coconuts fetch no yield up to 8 years
3. Plantation of mango yields only after 7 years
4. Plantation of rubber fetch no yield up to 7 years
5. Damage of fishing nets purchased out of loan.

Two borrowers utilized their incremental income for the establishment of shops or other business, and one borrower was honest enough to reveal that he used the increased income for liquor consumption.

From the analysis of this chapter, it may be concluded that (1) extension facilities play an important role in better utilization of credit and changing crop pattern. (2) Smaller the size of a family, better is the utilization and higher is the capital accumulation. (3) Credit along with extension helps to change cropping pattern of the farmers. (4) Only a negligible portion of borrowers misutilised the credit.
REFERENCES


14 Murthy, Y.K., "Utilization of Irrigation Facilities in Indian Society of Agricultural Economics, Seminar on Role of Irrigation in the Development of India's Agriculture, 1976, p.22."


