

Utilisation and Diversion of Credit under PLDB'S (Primary Land Development Bank)

***Dr. Sitaram Sharma**

Abstract

There are many factors which have come against any financial institution but the main factor to ensure a favourable impact of the investment credit on agriculture and economy of the borrower is that the funds are used for the the purpose for which they were sanctioned and disbursed. The diversion of funds from the proposed uses my defeat the vary purpose of the loan may have several adverse implication for the borrower as well as for the lender.

Need of Study

Although most of studies on agricultural credit have distinguished between utilisation and mutualisation of credit. I have come across a third category which may be termed as non- utilisation of capital assets. This situation has come up during my field survey and it is due to the non availability of ground water resources, drought low supply of power and due to lack of electricity connection.

Objective of the Study-

- For understanding the utilization and diversion of credit.
- Identify the Channel and type of diversion of credit.
- Identify the concept of misutilisation of funds.
- Identify the reason of non utilisation of credit.
- Identify the concept of under utilisation of assets.

Methodology

The Way in these utilisation and diversion of credit affect the LDB Loans is an important Issue for the discussion. For the collection of various information abd data the following tools will be used with a view to find out the actual relation between the banks and borrowing members. Efforts will be made to collect the views and opinion of various segment of the people involved.

A field survey will be conducted in the region of state to get first-hand information on various aspects of the objective of the study.

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Introduction

Before we look into the extent of diversion of investment credit it would be appropriate to clarify the meaning of the term diversion as it has been used in the present study. The proper utilisation of long term credit has been defined as the use of the funds exclusively for the purpose for which they were sanctioned and disbursed. The use of credit for any other purpose has therefore been described as diversion of funds.

The phenomenon is termed as non-utilisation of the capital assets. In fact, it would be more appropriate to call this kind of situation as non- utilisation of assets rather than non-utilisation of credit, but as credit is the means by which the cultivator can-acquire a capital a capital assets, that it will be more appropriate to term this situation as the non-utilisation of credit.

Types of Diversion

Extent of Division:-

As per the definition of utilisation of credit, let- us now examine the problem of utilisation of long term credit by 62 sample farmers. To examine whether the amount which was sanctioned and disbursed to the borrowers has been utilised or misutilised, the researcher has personally visited the farmers and inspected the projects on Farm sites.

Table- Extent of Diversion of PLDB's Credit Under Sample Farm Borrowers.

Purpose of Loan	Total No of Sample	Total Loan Disbursed	Diversion of Fund	Amount Utilised	Average Amount diverted
A. Minor Irrigation					
(i) Construction of New wells	9	212000	36800	175200	4089
(ii) EPS	7	103500	11500	92000	1643
(iii) DPS	4	57000	6500	50500	1625
(iv) Sprinkler Sets	24	477500	49800	427700	2075
Total (A)	44	850000	104600	744400	2377

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B. Farm Mechanization					
Tractor	8	1005000	240000	765000	30000
Total (B)	8	1005000	240000	765000	30000
C. Other Purposes					
(i) Camel Carts	8	48000	42000	6000	5250
(ii) Horticulture	2	44000	22000	22000	11000
Total (C) (Average)	10	92000	64000	28000	6400
Total (A+B+C)	62	1947000	408600	1538400	6590

To examine the extent of diversion of funds the figure for actual and desired aims of the PLDB's loans for the recipients farms may be placed together, the difference between two (desired and actual user) would indicate the extent of diversion.

The above table also indicates that the extent of of misutilisation was more in case of other purposes than in case of farm mechanisation and minor irrigation

Thus the analysis of diversion in relation to the size of land holdings reveals that there is no definite trend between the size of land holdings and extent of diversion. It is therefore apparent that the size of holdings does not influence diversion.

Channels of Diversion

The channels of diversion include three category which are as follows:-

- A. **Authorized Diversion** - The deduction made by the LDB authorities at the time of disbursement of the sanctioned loans to cultivators.

As per the provision of PLDB's loans the share money deducted from the borrower small and large farmers. Looking at the financial condition of the average borrower, it is a favourable provision from the view point of the farmers.

- B. **Productive Diversion** - The type of diversion is made by the loans for the purpose of productivity other than for sanctioned project.

When the borrower has planned to invest such fund in any other business, he will divert the funds accordingly.

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In sufficient quantum of credit may not complete the project and the borrower diverts such fund into other productive channels.

C. **Unproductive Diversion** - Diversion made by the borrowers in unproductive purposes.

When the borrower uses the funds for meeting the demands of domestic purposes like marriage of daughter or son, repayment of past debts or payment of loans to moneylenders or for other purposes, it is called unproductive diversion, The Indian farmer is illiterate and ignorant about the procedure and principal followed during sanctioning and disbursement of PLDBs credit. They seek the help of mediators of various type of expenditure incurred as soon as they get the credit, there expenses are met first. Thus this is also one of the diversion channel known as unproductive diversion.

Table- Statement Showing The Channels Of Unproductive Diversion

Purpose of Loan	Channels of Unproductive Diversion				Total Unproductive Diversion
	Seeking Credit from LDB	Repayment of old Debts	Domestic Purpose	Other Purpose	
(i) Construction of New wells	2500	7630	2420	340	12890
(ii) EPS	1200	1250	648	120	3218
(iii) DPS	800	770	364	100	2034
(iv) Sprinkler Sets	3000	6800	5433	630	15863
(V) Tractor	8800	22500	24750	1200	52750
(vi) Camel Carts	4000	15750	12084	800	32634
(vii) Horticulture	2500	6300	4038	1500	14338
Total	22800	61000	49737	4690	138227

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Table- Misutilisation of Fund under the Sample

Purpose of Loan	Total Sample Farmers	No. of Farmers who misutilised	
		Number	Percentage
A. Minor Irrigation			
(i) Construction of New wells	9	2	22.22
(ii) EPS	7	2	28.57
(iii) DPS	4	1	25
(iv) Sprinkler Sets	24	5	20.83
Total (A)	44	10	22.73
B. Farm Mechanization			
Tractor	8	2	25
Total (B)	8	2	25
C. Other Purposes			
(i) Camel Carts	8	7	87.5
(ii) Horticulture	7	1	50
Total (C) (Average)	10	8	80
Total (A+B+C)	62	20	32.26

From the above table thus it is confirmed from the field survey that PLDB's loan have been misutilised.

The conclusion derived from the survey have also been confirmed by the previous study made by R.K. GHAKHAR and A.C. Gangwar. They conclude that the extent of misutilisation was 54.31% in case of short term credit, and 27.37% in case of medium term credit.

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All India debt and investment survey reported the same and said that all assets group as a whole 22% of credit utilised on capital investment. It may be pointed out that whole picture of diversion in relation to the total funds available to the farmers may not give a complete picture of utilisation of credit.

Above three category of diversion are governed by different objective and have different implication and therefore, a separate discussion on time is necessary.

Reasons of Diversion

We will see that some farmers have diverted their fund both in productive purposes as well as unproductive purposes. We will discuss the cause as to why these farmers have diverted their funds.

Gap between the Sanction Amount and the Actual Needs

Due to lack of proper consideration of the cost factor the loaning policy and procedure of the LDB have chances of both over financing and under financing. If there is a case of under financing, loan sanctioning or disbursed falls short of actual needs of the borrower and he is unable to bridge the gap from his own resources, also we would never like to block the funds in a work which is likely to remain in complete due to lack of funds. If he want to complete the project he will borrow money from the lender or he may on his part uses of fund from some other alternative uses. Gap between the sanctioned amount and the actual needs is generate two type of situation, first is possibility of over financing and second is Possibility of Under Financing.

Lack of Effective post credit Supervision

Another cause of diversion of funds received from the PLDB's is the lack of post credit supervision. Once credit is sanctioned and disbursed, the PLDB's think that they have attained the targets of the loan disbursement and thereafter they do not carry out the post credit supervision activities, consequently the borrower take advantage of such supervision and diversion, both in productive and unproductive uses.

The disbursement of credit is the beginning of the process while the post credit supervision is the end of the process of both are complementary to each other. The capacity to repay , creation of permanent assets, utilisation of funds into productive uses etc. Depend on the type of supervision by the PLDB's and its supervisor. The post credit supervision should be made effective in various phases and for this purpose sincere and honest officers should be appointed. Finding based on survey of researches should also be taken into account by the PLDB's and a monitoring system should be created. All these steps if taken timely and with strong political will, the diversion of fund can be stopped.

Non Utilization of Credit

The problem of misutilisation accounting sense has been discussed in the previous section. However, in certain cases proper utilisation of credit may not ensure the creation of productive assets on the

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farm. This situation is more relevant in cases of digging of wells and estrangement in the partners of joint loans for the tractors. In these places where the poor recharge of water, lack of production and potentiality of land or lack of water lifting equipment, the investment of such wells, even when it has fallen category of proper utilisation of funds in accounting sense. May be considered as wasteful investment and also a sort of blocking of scare sources.

This type of non utilisation of credit may neither indicate diversion (in accounting sense) nor does it indicates diversion from individual borrowers view point, because the whole amount of credit is used for the purpose for which the loan was sanctioned, but if we take into account the spirit of transaction or the objective of investment credit, it will be clear that only a formality is fulfilled and the real spirit and objective is defeated.

Under Utilization of Assets

A closely related problem discussed above is the extent of utilisation of assets. Since the impact of the PLDB's loan or that of the assets created by the loans on the farm, production depends on the extent of utilisation of these assets, the importance of the latter aspects (i.e. utilisation of assets) can hardly be exaggerated. Beside under utilisation of the assets may upset the repaying capacity of borrowers and repayment schedules.

However some broad indicator based on report of the sample farmers and other experienced farmers of the village can reveal the extent to which the assets is under utilised. We may briefly discuss the reasons for such under utilisation. This problem is discussed with the reference to construction of new wells and other assets.

Under utilisation of assets the result are as follows.

- A. **Minor Irrigation:-** The PLDB's Mainly financed project of minor irrigation, fruitfulness of all investments of in the construction of new well, EPS, DPS, sprinkler sets and drio irrigation depends upon the –
 - (i) Water potentiality of the wells,
 - (ii) Supply of electricity power
 - (iii) Fertility of Land
- B. **Farm Mechanization:-** The second category financed by PLDB's was farm mechanisation like purchase of tractors, trollies, threshers. Utilisation of these assets are mainly dependent on –
 - (i) Size of land holdings owned by the loanees.
 - (ii) Numbers of tractor in the area and
 - (iii) Demand for tractor for commercial and industrial purposes.

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All the above factors are in favour of full capacity utilisation of all these assets. But it was noted in the field survey and also in interview with the sample farmers and other persons, that all these phenomenon are not favourable for full capacity of utilisation of assets,

Conclusion

From the following discussion following important conclusion have merged-

- (i) Credit among the samples studied was used for the purpose other than intended purposes.
- (ii) Diversion is highest in case of camel carts and horticulture
- (iii) Diversion consists of authorized diversion, productive diversion and unproductive diversion.
- (iv) The small farmers have diverted the funds in a large proportion of the loan to unproductive uses.
- (v) Diversion was due to discrepancy between actual needs of borrowers (for the intended purpose) and the supply of credit by PLDB's. Thus under financing and over financing are the main causes of diversion. Lack of post credit diversion is also an important factor.
- (vi) Non utilisation of credit and under utilisation of assets is also a problem faced by the borrowers due to draught condition, lack of power supply and estrangement of partners.

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