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Kisan Credit Card - A Study

समीर सामन्तरा

Samir Samantara

आर्थिक विश्लेषण और अनुसंधान विभाग

Department of Economic Analysis and Research

राष्ट्रीय कृषि और ग्रामीण विकास बैंक

National Bank for Agriculture and Rural Development

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Foreword

Agricultural Credit Delivery System (ACDS) has evolved into a multi-product and multi-agency approach (MPMAA). However, experience over preceding few decades suggested that multi-credit product approach (MCPA) has a number of systemic and structural rigidities, turning most of the credit products inefficient and sub-optimal. The introduction of a new credit product called Kisan Credit Card (KCC) in 1998-99 with three different sub-limits viz. production, assets maintenance and consumption needs is a step in this direction to address the challenge. In order to assess the implementation aspects of KCC scheme after almost a decade of its introduction, it was felt by NABARD to critically examine the difficulties and operational problems / bottlenecks encountered by the farmers as well as the implementing agencies.

NABARD conducted a study covering 14 States, 178 bank branches and 1876 KCC holders. The study brings out the fact that in the current Management Information System (MIS), there is no mechanism to eliminate distortions in the form of multiplicity of cards, invalid cards, etc. for recording of genuine KCC holders in any of the Rural Financial Institutions (RFIs). Suggestions from farmers included use of KCC as cash-credit card, minimal documentation, flexibility in repayments, dispensation of seasonal limits, creation of awareness about KCC, etc.

The study has further suggested that there is a need to adopt "Mission Mode" approach to make KCC into a farmers' friendly efficient instrument for effective credit delivery system accompanied by appropriate institutional mechanism. I am sure that the study findings will be useful to bankers, academicians, policy makers and development administrators in initiating follow-up actions.

National Bank for Agriculture and Rural Development
Mumbai
06 April 2010

(Umesh Chandra Sarangi)
Chairman

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i) the valuable inputs and insights offered by officers from Production Credit Department, HO.

ii) all the sample KCC farmers, non-KCC farmers, tenant farmers and officials from different bank branches/PACS who cooperated with the study.

However, the views expressed in the study report are of the author's alone.

Author

Abbreviations

ADWDR	:	Agriculture Debt Waiver and Debt Relief Scheme
ACDS	:	Agricultural Credit Delivery System
APC	:	Agricultural Production Commissioner
ATM	:	Automatic Teller Machine
BDO	:	Block Development Officer
CBs	:	Commercial Banks
CEOs	:	Chief Executive Officers
CoC	:	Cost of Cultivation
DCCB	:	District Central Cooperative Bank
DDM	:	District Development Manager
DEAR	:	Department of Economic Analysis & Research
DLRC	:	District Level Review Committee
DLTC	:	District Level Technical Committee
EC	:	Encumbrance certificate
FIF	:	Financial Inclusion Fund
FTTF	:	Farmers' Technology Transfer Fund
GDP	:	Gross Domestic Product
GOI	:	Government of India
ICDM	:	Innovative Credit Delivery Mechanism
ICIs	:	Innovative Credit Interventions
IMBP	:	Individual Maximum Borrowing Power
JLGs	:	Joint Liability Groups
KCC	:	Kisan Credit Card
KGC	:	Kisan Gold Card
LDM	:	Lead District Manager
MCPA	:	Multi-Credit Product Approach
MPMAA	:	Multi-Product and Multi-Agency Approach
MRO	:	Mandal Revenue Officer
NABARD	:	National Bank for Agriculture and Rural Development
NAFSCOB	:	National Federation of State Cooperative Banks
NAIS	:	National Agriculture Insurance Scheme
NFS	:	Non-Farm Sector
NPAs	:	Non Performing Assets
PACS	:	Primary Agricultural Cooperative Society
PAIS	:	Personal Accident Insurance Scheme
PCD	:	Production Credit Department

Abbreviations Contd.

PLPs	:	Potential Linked Credit Plans
PPB	:	Patadar Pass Book
RBI	:	Reserve Bank of India
RCCF	:	Revolving Cash Credit Facility
RKBY	:	Rashtriya Krishi Bima Yojana
RRB	:	Regional Rural Bank
SAOs	:	Seasonal Agricultural Operations
SCB	:	State Cooperative Bank
SFP	:	State Focus Paper
SHGs	:	Self Help Groups
SLBC	:	State Level Bankers Committee
SLCC	:	State Level Coordination Committee
SLCC	:	State Level Technical Committee
SLMRC	:	State Level Monitoring and Review Committee
ToR	:	Terms of Reference
VoP	:	Value of Production
VRO	:	Village Revenue Officer

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EXECUTIVE SUMMARY

The KCC came into existence in 1998-99 as a credit product that allowed farmers the required financial liquidity and avail credit when it was absolutely needed, providing in the process flexibility, timeliness, cost effectiveness and hassle free services to the farmers. since almost one decade has been passed since the implementation of KCC scheme in 1999, it was felt by the NABARD to (i) critically examine the difficulties and operational problems / bottlenecks encountered by the farmers as well as the implementing agencies, (ii) critically review the progress of the scheme, particularly from the angle of its geographical spread, bank-wise progress and coverage of different categories of farmers. Accordingly, a study was launched in 14 states with the above-mentioned objectives. A total of 1876 KCC holders from 178 bank branches from Co-operative banks, RRBs and Commercial banks were selected for a detailed study.

Major Findings/observations

- The study found a number of encouraging results such as hassle free access to institutional loans through KCC effectively resulted in increasing productivity of paddy crop (13.3 per cent) compared to the corresponding yield of non-KCC holders. However, the whole of the yield increase was partly attributed to the credit access through KCC. The adequate application of comparatively higher doses of inputs like fertiliser, manure, pesticide, labour, irrigation waters, etc. by KCC farmers are contributing factors for improvement of yield level.

- However, there were quite a number of findings reflecting few areas of concern. The study revealed that 717.51 lakh KCC were issued at the end of March 2009, which constituted around 76.85 per cent of the total operational holdings of the 14 states. The study observed that there was something seriously wrong with the MIS of KCC. The study could detect four types of shortcomings in the MIS on KCC: (a) more than one family member having the same operational holding have been issued the KCC, (b) the same person has been issued multiple KCC by various banks, (c) in certain cases, KCC lapsed after a period of three years, but were still counted as valid ones in the MIS and finally, (d) in certain cases, KCC were renewed after a period of three years, but such cards were shown to be freshly issued.

When these distortions are taken into account and the number of genuine KCC are re-estimated, it was found to be 472.68 lakh, which constituted around 50.63 per cent of the operational holding of the states. Among various states, the maximum coverage of KCCs (ratio of number of cards to operational holdings) were Punjab(77.53%), Haryana(74.21%), Andhra Pradesh(64.39%) and Karnataka(63.07%).

- Among the major banking institutions, commercial banks, cooperative banks and Regional Rural Banks accounted for about 43.7 per cent and 42.7 per cent and 13.6 per cent of the total number of cards issued respectively. In terms of total loan disbursed to cardholders, the share of commercial banks was 57.5%, followed by 29.5% for cooperative banks and 13% for RRBs.

- Coverage of marginal farmers and small farmers in the KCCs was in the range of 63-68 % (Coop banks), 58-61 %(RRBs) and 59-64 %(CBs). Share of tenant farmers was very negligible (<1%).

- It was observed that most of the KCC-holders were not aware of the modalities, usefulness/benefits of KCC Scheme. Inadequacy of credit, non-adherence to scale of finance, lack of flexibility in implementation of the scheme is some of the observations made by the farmers interviewed in the study. It was quite conspicuous that KCC was being used as one-shot loan (68% of the sample farmers), not as a cash credit limit as originally envisaged.

- The KCC-holders expressed some concern in matters relating to credit limit particularly by cooperatives. Although, a staggering 78% of the farmers interviewed responded that KCC was truly a hassle-free card, it was indicated that farmers had to undergo cumbersome procedures for getting a loan above Rs.50,000/-. The effective rate of interest, the opportunity cost of the time spent, financing of tenant farmers are some of the issues, which are to be addressed.

- About 19 per cent of the sample KCC holders were not aware of the modalities, usefulness/ benefits of KCC scheme. Farmers have been issued KCC and sanctioned limits under KCC, but they were not aware of its positive aspects, like, revolving cash credit facility (RCCF) involving any number of drawals and repayments, credit limits for full year including ancillary activities related to crop production and other NFS activities, sub limit for consumption purposes, etc.

- Agency-wise, while 26 per cent sample KCC holders from Cooperative Banks were not aware of the utilities of KCC, the same was 12 per cent and 14 per cent for Commercial banks and RRBs respectively. Similarly, land holding size-wise, 30 per cent of marginal farmers (<1.00 ha.) and 25 per cent of small farmers (1.01-2.50 ha.) were not aware of the utilities of KCC.

- Categorising sample KCC holders in terms of extent of period of holding of KCC revealed that majority of KCC holders (33%) were availing the facilities of KCC since last nine years. About 21 per cent were availing KCC since last seven years. Similarly, about 17 per cent, 13 per cent, 11 per cent, 8 per cent were using KCC since last five, four, three, two years, respectively, which implied that every year certain percentage of new farmers were being brought to the KCC fold particularly more prominent during doubling of credit programme (2004-05 to 2006-07) as per the target prescribed by the controlling/head office of the bank. It can also be deduced that quite a significant number of new borrowers had been demanding KCC every year due to its flexibility in usage and other utilities like, flexible drawals, flexible repayment patterns, coverage under NAIS/PAIS, minimum margin/ security norms, etc. Effective publicity and continuous monitoring at the DLCC/BLCC level as also at the level of Controlling/Regional Offices at the district and state level might also have contributed to the larger coverage of new farmers every passing year by the banks.

- As many as 900, forming 48 percent of the total sample KCC holders covered during field visit, felt that the credit limits sanctioned to them under KCC were not adequate. Agency-wise, majority KCC holders from Co-op. Banks (60.4%) conveyed their apprehensions on inadequacy of credit followed by RRB (44.3%) and commercial banks (33.8%).

- Land holding size-wise, while about 60.4 - 64.6 per cent of small and marginal farmers opined that credit limit sanctioned under KCC was inadequate; the same was about 40.2 - 43.5 per cent in case of medium and large farmers. Some of the farmers felt that the scales of finance for different crops fixed by District Level

Technical Committee (DLTC), in which cooperative banks had a major say, were on lower side.

- The study revealed that no agency including Co-op. bank had been strictly following the scales of finance (SoF). While the SoF has been fixed at Rs.10,500 – Rs. 13,500 for paddy, limit sanctioned under KCC across all the agencies was much less (Rs.8,500-9500). Limit sanctioned as compared to SoF was less by 19-29 per cent.

- KCC was being used as one-shot operation and not as number of times sanctioning of limit, more numbers of withdrawals/ deposits as originally envisaged. Majority of farmers (68%) had not gone for frequent operations on the limit sanctioned to them under the card and withdrew the sanctioned KCC limit at one go. Further, 11 per cent and 21 per cent KCC holders had operated the KCC limit twice and more than twice, respectively.

- The study revealed that all the sample farmers had used the major portion of their average loan disbursed for financing their expenses on raising the crops. About 17 per cent of the average loan under KCC was being used for non-production (consumption) purposes. Agency-wise, sample KCC holders from Co-operative Banks had utilised about 6 per cent of their average loan disbursed for consumption purposes, as against 18 - 20 per cent in case of both commercial banks and RRBs. Land holding size-wise, small/marginal farmers (29-30 per cent) used larger portion of average loan disbursed for non-production purposes as against medium/large farmers (16-25 per cent).

- A staggering 1426 respondents constituting 78 per cent of the total sample respondents responded that KCC was truly a hassle free card. Agency-wise, majority of KCC holders from commercial banks (81 per cent) viewed that KCC was hassle free followed by RRB (76 per cent) and Co-operative Banks (68 per cent). During the interaction with the farmers it was gathered that KCC holders got some relief in terms of sanctioning credit limit once in three years and drawing the limit once in a year.

- Out of the 1876 farmers interviewed, 76 per cent of total sample felt that the KCC was very much farmer friendly. The KCC holders got benefits like, (i) meeting credit requirements for crop cultivation for the whole year, (ii) availability of credit whenever the credit is needed, (iii) flexibility in drawing cash/buying inputs from any supplier of choice, (iv) reduction in quantum of interest due to drawal flexibility, (v) reduction in cost of credit for availing the bank loan, (vi) insurance cover (NAIS/PAIS) at a very low premium rate.

- Loaning operation with Coop Banks (PACS) was found costly as effective Rate of Interest (interest+ non-interest) worked out to be the highest and ranged from 8.25 to 9.50 across slabs followed by RRB (7.50 – 8.75) and commercial banks (7.25 – 8.00).

- Borrowers in PACS spent more time but minimum money for completing sanction formalities - Rs.84. when compared to Rs.200 incurred by borrowers who took loan from RRB and Rs.182 for commercial banks loans. Overall sample, opportunity cost of time spent on formalities was valued at Rs.146. Difference in the cost across agencies could be attributed to nearness of bank branches, formalities involved, efficiency and approach of the staff in sanctioning of loans.

- The study suggested that the add on features on KCC could be further improved in terms of extending other loan such as consumption loan, term loan in the ratio of 4:2:1 and evolve the KCC into a truly multipurpose card.

- Introduction of biometric cards, deployment of Banking Correspondence (BCs), simplification of procedure, financing through Joint Liability Groups (JLGs) mode, Weather-based Crop Insurance Scheme with Cyclical credit may go a long way in providing more relief to the distressed farmers. At this juncture, there is a need for more proactive initiatives by the commercial banks, state governments in promotion of JLGs, SHGs, Farmers' Club and Innovative Insurance Products, etc., and adoption of "Mission Mode" approach to make KCC into a farmers' friendly efficient instrument for credit delivery system accompanied by appropriate institutional mechanism.

CHAPTER I

An Overview

Agriculture continues to be an important sector of the economy with 18 per cent share in the Gross Domestic Product (GDP), provides employment to nearly $2/3^{rd}$ of the work force in the country. Agriculture at present has undergone a significant shift from the subsistence level of production to market oriented production. The much needed food security is reflected in the abundant buffer stocks of grains build up out of the surplus production. Diversification and commercialization in agriculture have resulted in shifting of cropping pattern from traditional crops to high-value crops and new markets.

1.2 Institutional credit, which played a very important role in the development of agricultural sector was instrumental in development of Indian agriculture. It showed all signs of resilience to natural shocks like droughts and famines. In fact, credit acted as a means to provide control over resources to enable the farmers to acquire the required capital for increasing agricultural production. It enabled the farmer to go for short-term credit for purchase of inputs and other services and the long-term credit for investment purposes. Thus, credit played an important role by facilitating technological up-gradation and commercialization of agriculture. The success of Green Revolution in Indian agriculture to a large extent laid on institutional credit support to agricultural sector in terms of expansion in inputs like fertilizers, irrigation, private capital formation, etc.

Agricultural Credit Delivery System

1.3 Institutional credit dispensation system for agriculture in India has only a brief history starting with the setting up of cooperative credit societies in 1904. However, coverage of these societies to meet the credit requirement was so limited in certain pockets and negligible that almost entire credit requirement of the farming community was met by informal money lending sources till 1950s. The recommendations of All India Rural Credit Survey Committee (1951-54) has laid the foundation of the institutional framework[1] for

1 The recommendations of the Committee included rebuilding of cooperatives at all levels, cooperative marketing, multipurpose societies at larger level, commodity specific marketing societies, multipurpose PACSs at village level to undertake farm inputs and product marketing.

establishing a sound credit delivery system for financing agriculture and allied activities. A major shift in the short-term credit product was the introduction of crop loan system. An action programme[2] in 1963 was laid down by the Central Government for implementation by the State Government. Till the end of the 1960s, to be more specific, up to the social control introduced on the commercial banks, cooperative structure was assumed the sole responsibility of providing production credit to the farmers. The entry of commercial banks with bank nationalization in 1969 and the emergence of Regional Rural Banks (RRBs) in 1975 gave wider reach to the short-term credit delivery system in the country. The entry of commercial banks and RRBs, brought in a sea change in the financing pattern of the farm sector as the credit of the Indian farmers were increasingly met by the institutional sources. However, such a quantitative improvement in the coverage could not be achieved in the case of quality of credit products provided by the banks especially to the priority sector. Though several suggestions for provision of credit through single source, including by The National Commission for Agriculture, the basic characteristic of the credit dispensation system in India remained as multi product and multi agency approach[3] especially in 1970 and 1980s. The credit product was targeted to cater to the stipulated and specific production investment needs within that specific sector activity, presuming that the economic function of that activity is independent of other economic activity of the same farm enterprises.

1.4 Under the system each farmer had the flexibility to approach an agency of his choice for an investment as per the standard stipulations laid down by the agency. Again, component of investment credit or production credit would exclude the maintenance cost as it presumed that maintenance is a recurring cost which the farm enterprises can meet out of its operational surplus. It was also presumed that the credit need (investment/production) of the firm and that of the investor (consumption) are independent and mixing up of the same will adversely affect the economics of the firm; hence, no effort was made to cover the later by the institutional credit along with the former.

2 The programme emphasised production oriented credit in addition to the asset-based credit followed earlier, disbursement of input in kind, strengthening of societies, emphasis of marketing etc.

3 Logical explanation given was that the credit need of the farmers of an economy of such a size and diversity can be met effectively only through a multiple product and agency approach.

Another set of explanation is that whether surplus income generated from the investment within the economic life of the investment is sufficient to repay the debt burden of that particular investment.

1.5 The functioning of multi credit product approach has a number of intrinsic and structural rigidities, making most of the products inefficient and reducing its utility to sub-optimal level. Very often the line of credit was made supplier friendly so as to make its operation to the minimum. Production credit, for example, as stipulated by *Date Committee* and further modified by *Kalia Committee*[4] was available on crop season basis. Major economic impact of the system was high procedural formalities in the system and the lack of timeliness in loan sanction and disbursement and inadequacy of the loan amount. Quiet often, farmer has to approach various agencies; with different package of credit, with different interest rate and with differing and cumbersome sanction procedures and norms to meet his entire credit needs and economic cost of his time spend on this account was neglected. The complicated credit environment created by the multiple credit delivery systems in rural areas duplicated workload increasing the social cost associated with it. Absence of maintenance package in the individual credit product often made farm investment infructuous for the remaining economic life for want of smell repairs, creating conditions for perpetual indebtedness for them[5].

1.6 The structure of the Agricultural Credit Delivery System (ACDS) in the country, evolved over the years, comprises of institutions in the formal and informal sectors. In the formal sector, a multi-agency approach has been adopted and includes Co-operatives, Commercial Banks (public and private sectors) and the Regional Rural Banks. The informal sector operates through non-institutional sources like the moneylenders, traders, merchants, commission agents, friends and relatives, etc.

Agricultural Credit Delivery Strategy

1.7 The credit strategy for agricultural development in the country was founded on the philosophy of ***"growth with equity".*** Various

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4 Allowing the borrower to avail credit at one point of time and repay it inventory, whether needed or not a point of time, deterioration in its quality due to improper storage etc. adding up farmer debt service in process.

5 Bottom quartile segments of population perpetuated mis-utilisation of credit, more towards consumption purpose.

measures like administered interest rates, setting targets of lending to the agriculture sector, coupled with availability of refinance to the banks at softer terms had helped in increasing the flow of credit to the agriculture sector. Stipulating targets to the banks ensured access of credit to marginal and small farmers. Loans to this group were made available at softer terms, e.g., lower down payment, longer maturity period and lower rates of interest[6].

Multi-product and Multi-agency approach

1.8 The Agricultural Credit Delivery System (ACDS), as it shaped up during 1970s and 80s was characterized, by multi-product and multi-agency approach (MPMAA)[7]. Under this arrangement, the farmer entrepreneur would have the flexibility to approach any of the bank branches in its area for credit support either for farm investments or for purchase of farm inputs, depending on his choice of credit needs. Moreover, each credit product was targeted to cater to the stipulated and specific production/ investment needs within that specific sector/ activity. Again, inadequacy of loan amount was also reported to be common, more due to rigidity in the scale of finance. Moreover, it didn't allow beneficiary farmer the necessary flexibility in utilization of the loan amount. It also involved frequent shuttling by the farmers to bank branches. Moreover, the farmer, needing production and investment credit had to approach different agencies with different packages of credit, including different rates of interest, eligibility and sanctioning norms, etc. Absence of maintenance package in the individual credit product often made farm investments infructuous for the remaining economic life for want of small repairs, creating conditions for perpetual indebtedness for them. Besides, high consumption-income gap, particularly among the bottom quartile segments of population perpetuated mis-utilisation of credit, more towards consumption purposes.

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6 Such facilities helped these farmers also to adopt the new technologies of farm production. The pursuance of such strategies facilitated in improving the access to institutional credit for the rural people.

7 The rationale behind such an approach was that for the economy of the size with wide diversity, multiplicity of credit products and agencies alone would induce the required development process.

Kisan Credit Cards

1.9 Recognizing the limitations of multi-credit product and multi-agency approach, a stronger view emerged among policy makers, particularly since the early nineties, on the need for an *'integrated credit'* product for accelerating sector/area/activity specific development process. The introduction of a new credit product called 'Kisan Credit Card' (KCC)[8] in 1998-99 with three different sub-limits viz. production, assets maintenance and consumption needs is a step in this direction. This brings integration into the multi-credit product system by offering farm entrepreneurs a single line of credit through a single window for multiple purposes. These include acquisition of farm assets, maintenance thereof and meeting families intervening consumption needs. The Kisan Credit Card Scheme was a step towards facilitating the access to short-term credit for the borrowers from the formal financial institutions. The scheme was conceived as a uniform credit delivery mechanism, which aimed at provision of adequate and timely supply of short-term credit to the farmers to meet their crop production requirements. The KCC instrument would allow farmers to purchase agriculture inputs such as seeds, fertilizers, pesticides and also allow them to withdraw some cash for meeting their other crop production related requirements.

1.10 Under the old system short-term credit was disbursed either through a demand loan or through a system of loans known as crop cash credit mechanism[9]. In the demand-based system, loans were granted on crop specific basis against execution of fresh documents each season. The sub limit was fully used up only credits were permitted, but withdrawals were not allowed. Withdrawals under these limits were permitted either in cash through debit slips or through banker's cheques for the kind component. As a result the withdrawals were usually bunched at the beginning of crop season and repayments at the end of the season when farmers were able to generate cash after harvesting and marketing their produce.

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8 KCC product allowed farmers the required financial liquidity and avail credit when it was absolutely needed, providing in the process flexibility, timeliness, cost effectiveness and hassle free services to the farmers.

9 Crop cash credit mechanism under which borrowers were sanctioned sub-limits within an aggregate limit on the basis of standard criteria such as cropping pattern, scale of finance and land holding.

1.11 Since then, the scheme of KCC is under implementation by State Cooperative Banks (SCBs) through DCCBs and PACS as also the Regional Rural Banks (RRBs) and Commercial Banks (CBs) under the aegis of NABARD. As on 31 March 2009, 828.7 lakh farmers were issued KCCs by various banks. Co-operative banks have the largest share (62%), followed by commercial banks (30%) and RRBs (8%). The performance in the implementation of the KCC scheme has been impressive[10] in the states of Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and Uttaranchal. A personal accident insurance scheme has also been introduced from the year 2001-02 for all KCC holders against accidental death/ permanent disability. The scheme has become popular both amongst farmers and bankers.

1.12 However, experience over preceding few decades suggested that multi-credit product approach (MCPA) has a number of systemic and

Kalinga Kisan Gold Card Scheme

The scheme was introduced in 2001 about three years from launching of KCC by Odisha State Co-operative Bank. The scheme aimed to provide additional and attractive benefits to borrowing KCC holders with a good track record. Eligibility criteria for issue of Gold Cards were as follows: Membership of society for last three years, Availing agricultural loans from the society for last two years, No default in repayment in last two years, The benefits as outlined in the scheme were, 1% less rate of interest on all kinds of loans, Accidental insurance coverage of Rs. 25000/-. Premium to be borne by bank, Eligible for consumption loan, Selected Gold Card holders will be given exposure visits once in a year, Eligible to participate in the lottery to be held once every year with attractive prize money, Card holders were free to purchase fertilizer from any retail dealer for the 'B' component, Card holders to get priority in any loan scheme up to Rs. 25000/-.

10 Coverage of KCC with respect to operational holdings is more than 70 per cent.

structural rigidities, turning most of the credit products inefficient and sub-optimal. The introduction of an innovative credit product called Kisan Credit Card (KCC) in 1998-99 was essentially designed by NABARD as an integrated product to address the challenge. In order to evaluate the impact of the implementation of this innovative product after almost a decade of implementation, it was felt by the NABARD to (i) identify the difficulties and operational problems / bottlenecks encountered by the farmers as well as the implementing agencies, (ii) critically review the progress of the scheme, particularly from the angle of its geographical spread, bank-wise progress, coverage of different categories of farmers and its overall impact on flow of ground level credit (GLC).

1.13 NABARD conducted a study covering 14 States adopting multi-stage stratified sampling design. The selected states include Odisha and West Bengal from the eastern region, Maharashtra and Gujarat from from the western region Rajasthan and Madhya Pradesh from the central region, Punjab, Haryana, Himachal Pradesh and Uttar Pradesh from the northern region, Andhra Pradesh, Karnataka and Kerala from the southern region and Assam from the North-eastern region.

CHAPTER II

Sample Design and Methodology

2.1 This chapter presents the objective, sample design and the methodology for the present study.

I. Terms of Reference

2.2 The major objective of the study is to address the problems/ constraints and suggest remedial measures for effective implementation and quick coverage of KCCs. The specific Terms of Reference (ToR) of the study are

- To critically review the progress of the KCC Scheme since its inception with focus on
  - o bottlenecks/constraints in the implementation of the scheme.
  - o how the issuance of the KCC has helped in accelerating the institutional credit flow
  - o improvement on productivity and efficiency at the field level of the KCC holder over that of the non- KCC holders.
- To quantitatively estimate
  - o extent of adequacy or otherwise in the sanction of the credit limit and the disbursement thereof - bank-wise, farmer category-wise, terms structure-wise (ST, MT, etc.) and activity-wise,
  - o extent of mis-utilisation of the KCC (such as mortgaging it to the moneylender, etc.) extent of dis-use of the KCC (such as dormant cards, etc.)
  - o nature (small\marginal farmers, tenant farmers, etc., both borrowers and non-borrowers) and extent of exclusion from the issuance of KCC;
  - o extent of exclusion as well as under-utilisation of the insurance coverage under the KCC scheme
- To suggest measures towards modification of the Scheme such as conversion of KCC into bio-metric card, to ensure inclusion of

excluded farmers, to eliminate mis-utilisation/disuse of KCC and to attain complete insurance coverage.

II. Sample Design and Methodology

2.3 The study is based on both primary as well as secondary data. The secondary information has been collected from various published and unpublished sources of NABARD, SLBC, controlling banks and sample branches implementing the scheme in selected states. These data has been used to examine progress made under the scheme since its inception, loans advanced, coverage of beneficiaries and distribution of cards to choose representative sample size, keeping in view the spread and coverage. To collect data from the borrowers a multistage stratified sampling design on the lines delineated was adopted.

2.4 The survey of the borrowers was carried out in 14 states on the basis of total number of cards issued up to March 2009. Subsequently, banks, branches and types of farmers formed three stages of sample selection within the selected district. Depending upon the size and number of KCC holders, a sample of ten farmers from each bank branch was selected using simple random sampling with due representation to various types of farmers according to their land-holding size(land operated). Such a procedure ensured that a representative sample took into account variation within the state, development of a state by virtue of its classification on the basis of number of cards issued and banking/financial infrastructure, which has a positive relationship.

2.5 Keeping in view the distribution of financial institutions in view the sample branches were drawn in such a way that the banking infrastructure was truly represented. The total number of branches selected within the district was further distributed according to the type of financial institution (commercial bank, cooperative bank and RRB) as per distribution of KCCs issued by these institutions. Following the framework discussed above a total of 178 bank branches[11] were selected from 14 states.

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11 Bank branches were selected on the basis of probability proposal to size method applied independently to each stratum.

2.6 An independent borrower was the ultimate sampling unit for the selection of sample KCC holders, detailed information on the number of farmers with a selected branch caters to and the number of KCCs issued by the branch was collected. From the same state, a sample of 30 farmers who did not have KCC but availed credit or did not have KCC and not availed credit or combined of above two were also selected to have a comparative analysis. Sample farmers were further classified into tenant, marginal, small and other farmers on the basis of size of their operational holding to get an objective view for the impact of the scheme according to various types of land holding. The final sample of KCC holders thus worked out to be 1876 from 14 states and 391 control farmers who do not have KCC from 14 states. The data was collected with the help of pre-tested questionnaires. The type of data collected with these questionnaires included information on the following variables.

i. Bank questionnaire - Branch profile, number of KCC issued, staffing pattern, short-term credit disbursed by the branch, operational issues and difficulties associated with the implementation of the scheme and areas for further implementation.

ii. Household questionnaire - Social groups, household size, sources of income, details of area owned and operated, household assets, cropping pattern, allied agriculture activities, costs of purchase and other inputs used at the farm, consumption expenditure, pattern of borrowings, sources of borrowings, issues related with KCC, credit limits, operational difficulties associated with the use of KCC and suggestions for further improvement of the scheme.

2.7 The selection of the state was made in such a way as to give proper geographical representation as also the level of agricultural development and flow of KCC. With these criteria, Punjab, which is a Northern state, agriculturally developed and having good achievement under KCC and Assam which is rated relatively poor achiever in terms of KCC from the North-east were selected for the study.

Selection of Banking Agencies and Sample

2.8 From each selected state, branches of all the three major banking agencies for giving proper coverage of all the banking agencies viz., commercial banks, RRB and cooperative banks were identified for the detailed study. As on 31 March 2009, a total of 717.51 lakh KCCs were issued, of which Commercial banks represented 43.7 percent followed by Co-operative banks(42.7 percent) and RRBs (13.6 per cent). In order to capture variation at the implementation stage of the scheme, all the three major agencies were covered under the study. Details of coverage of bank branches under the study are given in Table 2.1.

Table 2.1 : Sample distribution – bank branches and farmers

Bank	Punjab		Haryana		UP		HP		Nothern Region	
	Branches	Farmers	Branches	Farmers	Branches	Farmers	Branches	Farmers	Branches	Farmers
CBs	4	45	4	45	5	47	5	45	18	182
RRB	4	45	4	45	4	37	4	45	16	172
Coop.	4	45	4	45	4	55	4	45	16	190
Total	12	135	12	135	13	139	13	135	50	544

Bank	AP		Karnataka		Kerala		Southern Region	
	Branches	Farmers	Branches	Farmers	Branches	Farmers	Branches	Farmers
CBs	3	41	5	75	5	45	13	161
RRB	4	46	4	25	6	45	14	116
Coop.	4	60	4	36	8	45	16	141
Total	11	147	13	136	19	135	43	418

Bank	Odisha		West Bengal		Eastern Region	
	Branches	Farmers	Branches	Farmers	Branches	Farmers
CBs	3	24	5	32	8	56
RRB	4	43	4	46	8	89
Coop.	5	74	4	40	9	114
Total	12	141	13	118	25	259

Bank	Maharashtra		Gujarat		Western Region	
	Branches	Farmers	Branches	Farmers	Branches	Farmers
CBs	3	38	4	45	7	83
RRB	3	56	3	45	6	101
Coop.	3	41	4	45	7	86
Total	9	135	11	135	20	270

Bank	Rajasthan		MP		Central Region	
	Branches	Farmers	Branches	Farmers	Branches	Farmers
CBs	4	45	6	42	10	87
RRB	4	45	5	50	9	95
Coop.	5	45	4	43	9	88
Total	13	135	15	135	28	270

Bank	Assam		North-east region		Total	
	Branches	Farmers	Branches	Farmers	Branches	Farmers
CBs	4	44	4	44	60	613
RRB	4	39	4	39	57	612
Coop.	4	32	4	32	61	651
Total	12	115	12	115	178	1876

Data Collection and Analysis

2.9 Primary data was supported by secondary data for the study. Data on the progress, operation aspects and repayment performance under the scheme, etc., were collected from the financing branches covered under the study. Bankers were also interviewed to assess the operational advantages and disadvantages of the scheme. Interviews were sought for regarding methods followed in selection of the farmers, fixation of credit limit, security norms, coverage of weaker section and documentation. Further, other information like reporting system followed, measures taken to popularize the scheme, non-economic benefit received by the bankers due to the scheme etc, was gathered. Secondary data was also collected from the controlling offices of financing bank branches samples, Lead Bank, Concerned Regional Offices, Production credit Department at Regional Offices, Head Offices, etc.

Factors determining Credit Requirements

2.10 Given the significance of credit limits, their level, factors determining these limits, flexibility of withdrawals and repayments within these limits are the main issues on which the analysis is focused in subsequent chapters. Further, the study has examined the average credit limits for various categories of farmers with the objective of finding out whether farmers are satisfied with their credit limits. If not, do they borrow from informal sources to meet shortfalls in their requirements?. Are they also satisfied with the criteria that are applied to the determination of their limits? If not, what should be the credit limits and how they need to be determined? More precisely, what are the additional factors/components that they would like to be included along with proportionate weights assigned for the determination of credit limits?

2.11 The study has attempted to test the significance various variables (scale of finance, cost of cultivation, consumption expenditure and requirement for allied and Non-Farm Sectors (NFS) activities on total credit limit through a regression model in which the dependent variable is credit requirement. Alternatively, these three variables explain how much variation in credit requirements[12].

Reference Year

2.12 The reference year for the study was April 2008-March 2009. All the cost on farm operation and benefits of the sample farmers were collected at reference year prices. All the other costs associated with formalities of getting KCC and opportunity cost of time spend on that account etc, were collected at historical prices and converted into reference year prices wherever necessary at the recording stage itself.

Concepts and Methods of Measurement

2.13 Primary data and secondary data were tabulated and analyzed using statistical tools such as mean, standard deviation, percentage share, weighted average, growth rate, etc., to derive inferences. Economic benefits of KCC have been arrived at by estimating production gain, price gain, actual interest saved on account of enhanced credit limit and reduced average loan outstanding (due to the flexibility in operation). Non-economic benefit of the KCC was assessed in terms of individual perceptions of the borrowers on the scheme as to its success and the level of satisfaction on the expectation on the scheme. Similarly the bank branches were also consulted of the advantages and benefits on the scheme in terms of reduced formalities, documentation, reporting etc.

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12 This is specifically true for model in which the imputed value of family labour and expenditure on food, education, health care and social obligations are included.

Selection of Sample Farmers

2.14 To assess the farmers' perceptions on KCC, the implications of KCC on farmers in terms of adequacy and timely availability of credit, a total 1876 farmers were selected from across the 178 bank branches/PACS from various states (Table 2.2). Agency-wise, majority of KCC holders (34.7 per cent) were selected from Co-op. banks, followed by RRB (32.6 per cent) and Commercial banks (32.7 per cent).

Table 2.2: Farmers covered during the study (agency-wise)

No.	Agency	No. of Farmers	% share
1.	Regional Rural Banks	612	32.6
2.	Co-operative Banks	651	34.7
3.	Commercial Banks	613	32.7
	Total	1876	100.0

2.15 Various Regional Offices/Controlling Officers of commercial banks were visited by the study team to collect information pertaining to the implementation of KCC scheme. Office of the Lead District Manager (LDM), Head Offices of RRBs and Cooperative Banks were also visited to collect data through structured tables/ formats/ questionnaires. Information was also collected from sample branches/ PACS of banks/DCCB on the procedures of issuing KCC, sanctioning of limits, utilization pattern, disbursement method, views of agencies on KCC usage pattern, etc. Certain other operational aspects, like method of documentation followed/ documentation cost for issuing/ renewing KCC for different credit limits, were also discussed with branch managers/senior managers of commercial banks/ RRB. Data/ information was also collected from the records maintained by the selected bank branches on loan O/S on KCC repayment period, rate of interest, repayment performance, etc., for the KCC limits.

2.16 Primary data were collected from the KCC holders through specially designed schedules on the aspects like, land holding, cropping pattern, cost of cultivation, etc. Information was gathered on yield of crops. Information on usage pattern of KCC limits sanctioned/availed; interest rates, duration of loan, etc. along with farmers' perceptions on issuance of KCC were also collected for the study.

CHAPTER III

Review and Progress of Kisan Credit Cards

3.1 Given the enormity of the credit requirements on the one hand and the vagaries of nature on the other, financing for agriculture has always been a gigantic task for banks. The access to institutional credit for a large number of farmers, particularly small/marginal farmers, continued to be a challenge to the banking industry. The process of financial reforms also highlighted the need for innovative credit interventions (ICIs) from institutional agencies to support farmers. Any credit facility to the farmers should not only be timely, but also be available in adequate quantum besides ensuring an in-built flexibility.

3.2 Against this backdrop, Kisan Credit Card (KCC) emerged as an innovative credit delivery mechanism (ICDM) to meet the production credit requirements of the farmers in a timely and hassle free manner. Realizing its potential in terms of simplification of loan procedures and reducing the drudgery of cumbersome documentation, Hon'ble Union Finance Minister in his Union Budget Speech for the year 1998-99 announced that NABARD would formulate a model scheme for issue of Kisan Credit Cards to farmers on the basis of their holdings for uniform adoption by the banks so that the farmers may use it to readily purchase agricultural 'inputs such as seeds, fertilizers, pesticides, etc., and draw cash for their production needs. As a sequel to this, NABARD, in consultation with RBI and major banks, formulated a model scheme for issue of Kisan Credit Card.

3.3 The credit card mechanism was not altogether new to the sphere of agricultural banking in India. In fact, some leading public sector banks as well as DCCBs in some States had introduced agricultural credit cards even earlier. However, such schemes were not much access to small and marginal farmers. Further, there was also no uniformity in respect of such schemes implemented by different banks. Similarly, several commercial banks and cooperative Banks have already been extending cash credit facilities to farmers with a view to improving their access to credit. The ensuing paragraphs provide a brief account of the review and progress of KCCs in the study area i.e. 14 states.

Progress of Kisan Credit Card Scheme in India

3.4 The Scheme was initiated in the year 1998-99. Only 0.78 million KCC could be issued in the initial year and it progressed consistently in subsequent years. Putting an emphasis on increasing credit flow to the agricultural sector, NABARD advised the banks to identify and cover all farmers including defaulters, oral lessees, tenant farmers and share croppers, who were left outside the hold of the KCC scheme for any reason so that all farmers are covered under the scheme by March 31, 2007. Further, banks were advised to issue KCCs in a hassle free manner, extend crop loans only through KCCs and renew them so as to ensure quality in operations. About 8.46 crore Kisan Credit Cards have been issued up to end of 2008-09 by the banks throughout the country. (Table 3.1).

Table 3.1: Agency-wise and Period-wise progress of KCC
(Rs. in crore)

Year	Coop. Banks		RRBs		Commercial Banks		Overall	
	No. of KCC issued	Amount sanctioned	No. of cards issued	Amount sanctioned	No. of cards issued	Amount sanctioned	No. of Cards issued	Amount Sanctioned Per KCC
1998-1999	1.55	826	0.06	11	6.22	1473	7.84	2310
1999-2000	35.95	3606	1.73	405	13.66	3537	51.34	7548
2000-2001	56.14	9412	6.48	1400	23.90	5615	86.52	16427
2001-2002	54.36	15952	8.34	2382	30.71	7524	93.41	25858
2002-2003	45.79	15841	9.64	2955	27.00	7481	82.43	26277
2003-2004	48.78	9855	12.73	2599	30.94	9331	92.47	21785
2004-2005	35.56	15597	17.29	3833	43.96	14756	96.80	34186
2005-2006	25.98	20339	12.49	8483	41.65	18779	80.12	47601
2006-2007	22.98	13141	14.06	7373	48.08	26215	85.11	46729
2007-2008	20.91	20492	17.73	9074	46.06	20421	84.70	49987
2008-2009	13.44	13172	14.14	7632	58.34	25865	85.92	46669
Cumulative	361.44	138233	114.69	46147	370.52	140997	846.66	325377

Source: NABARD & SLBC documents

3.6 The State-wise progress in implementation of KCC scheme revealed that Uttar Pradesh, accounted for 18 per cent of the total cards issued followed by A.P. (17 per cent), Maharashtra (10 per cent), Tamil Nadu (10 per cent), and Karnataka, Madhya Pradesh, Odisha and Rajasthan, (6 per cent each.) The progress was, however, tardy in Goa, Himachal Pradesh, Jammu and Kashmir, Sikkim and the States in North-Eastern Region. Against the above background the present study was conducted by NABARD.

3.7 However, there were quite a number of findings reflecting few areas of concern. The study revealed that 717.51 lakh KCC were issued at the end of March 2009, which constituted around 76.85 per cent of the total operational holdings of the 14 states (Table 3.2). The study observed that there was something seriously wrong with the MIS of KCC. The study could detect four types of shortcomings in the MIS on KCC: (a) more than one family member having the same operational holding have been issued the KCC, (b) the same person has been issued multiple KCC by various banks, (c) in certain cases, KCC lapsed after a period of three years, but were still counted as valid ones in the MIS and finally, (d) in certain cases, KCC were renewed after a period of three years, but such cards were shown to be freshly issued. When these distortions are taken into account and the number of genuine KCC are re-estimated, it was found to be 472.68 lakh, which constituted around 50.63 per cent of the operational holding of the states. Among various states, the maximum coverage of KCCs (ratio of number of cards to operational holdings) were Punjab (77.53 per cent), Haryana(74.21 per cent), Andhra Pradesh(64.39 per cent) and Karnataka(63.07 per cent).

3.8 Agency-wise break up of the total KCCs issued showed that commercial banks issued maximum number of KCCs at 43.2 per cent of total followed by cooperative banks and Regional Rural Banks at at 42.7 per cent and 13.6 per cent respectively(Table 3.3). In terms of total loan disbursed to cardholders, the share of commercial banks was 57.5 per cent, followed by 29.5 per cent for cooperative banks and 13 per cent for RRBs.

Table 3.2 Coverage of KCC - State-wise (in lakhs)

States	No.of operational holdings (in lakhs)	No. of card issued (in lakhs)	(%age)	Estimated[13] KCC in lakhs)	(%age)
Orissa	40.67	49.34	121.32	24.87	61.15
West Bengal	67.90	31.08	45.77	27.09	39.90
Eastern Region	**108.57**	**80.42**	**74.07**	**51.96**	**47.86**
Maharashtra	121.04	78.12	64.54	70.34	58.11
Gujarat	42.39	28.01	66.08	20.54	48.45
Western Region	**163.43**	**106.13**	**64.94**	**90.88**	**55.61**
Rajasthan	58.19	47.57	81.75	37.77	64.91
Madhya Pradesh	73.56	50.68	68.90	42.57	57.87
Central Region	**131.75**	**98.25**	**74.57**	**80.34**	**60.98**
Punjab	9.97	22.30	223.67	7.73	77.53
Haryana	15.28	23.48	153.66	11.34	74.21
UP	216.68	154.23	71.18	76.89	35.49
HP	9.14	3.25	35.56	2.64	28.88
Northern Region	**251.07**	**203.26**	**80.96**	**98.60**	**39.27**
AP	115.32	144.32	125.15	74.26	64.39
Karnataka	70.65	49.78	70.46	44.56	63.07
Kerala	65.75	30.54	46.45	28.44	43.25
Southern Region	**251.72**	**224.64**	**89.24**	**147.26**	**58.50**
Assam	27.12	4.81	17.74	3.64	13.42
North-east Region	**27.12**	**4.81**	**17.74**	**3.64**	**13.42**
Total	**933.66**	**717.51**	**76.85**	**472.68**	**50.63**

13 i) More than one family member having the same operational holding have been issued the KCC –4-6%

ii) Same person has been issued multiple KCC by various banks – 3-5 %

iii) KCC lapsed after a period of three years, but were still counted as valid ones in the MIS – 7-9%

iv) KCC were renewed after a period of three years, but such cards were shown to be freshly issued. – 9-11%

Table 3.3: Coverage of KCCs - Agency-wise *(in %age)*

Agency	No. of KCCs	Amount in KCC
CBs	43.7	57.5
RRBs	42.7	29.5
Coops.	13.6	13.0

Coverage of Small/Marginal Farmers (SF/MFs)

3.9 The coverage of small and marginal farmers across the states revealed that Co-operative banks, RRB and Commercial Banks were out in the range of 63-68 per cent, 58-61 per cent and 59-64 per cent respectively (Table 3.4).

Table 3.4: Coverage of Small/Marginal Farmers under KCCs

Sr. No.	Bank/Agency	%age coverage of SF/MF
1	Cooperatives	63-68
2	RRB	58-61
3	CBs	59-64

3.10 Out of 1876 sample farmers, small and marginal farmers accounted for 33 per cent and 29 per cent respectively. Share of tenant farmers was very negligible (<1 per cent).

Table 3.5: Coverage of Farmers *(in %age)*

Sr. No.	Farmers	% age coverage
1	Small Farmers	33
2	Marginal Farmers	29
3	Tenant Farmers	< 01

3.11 It may therefore be concluded that the KCC has definitely made dent in the horizontal growth of credit i.e. in terms of coverage of farmers by the banking sector. However, what it lacked was the depth in credit flow, which needs to be improved upon with some reform measures.

Monitoring Arrangement under KCC

3.12 As per guidelines, the progress under KCC is to be closely monitored and reviewed at regular intervals. The study observed that it was being reviewed at block/mandal level in Block Level Bankers Committee (BLBC) meetings. The BLBC is a committee of bankers headed by the Lead Bank Manager (LDM) of the district. The Block Development Officer (BDO) and officers from the line departments also participate in such meetings. At the district level, District Level Review Committee (DLRC), is chaired by the District Collector and attended by bankers and officials from the line departments in the district, reviews the progress of the KCC scheme as a part of its agenda. Similarly at the State level, State Level Bankers Committee (SLBC), chaired by the Chief Secretary or the Agricultural Production Commissioner, the highest forum to review the banking activities in a state reviews the KCC scheme. In addition, the banks also review the progress in house through reports/ returns and during the conference of branch managers. The Co-operative banks and RRBs review KCC scheme in their board meetings. Further, progress in implementation of KCC by RRBs is also being reviewed in State Level Coordination Committee (SLCC) Meetings.

3.13 As far as the Co-operative banks are concerned, the chief executives have been doing the review as also it is being discussed in the DLRC. Further, State Level Monitoring and Review Committee has been constituted under the chairmanship of the Secretary (Co-operation) of the state for close monitoring and review of the progress in implementation of the scheme by co-operative banks and to sort out the operational problems. The Registrar of Co-operative Societies, Managing Director of the State Co-operative Banks, the Chief Executive of the DCCBs and officer in charge of NABARD are the other member of the committee.

CHAPTER IV

Implementation of Kisan Credit Card Scheme

4.1 NABARD played a proactive and catalytic role in assisting the banks to meet challenges as also in implementing the KCC scheme. The model scheme on KCC scheme formulated by NABARD was circulated among all banks, including RRBs.

Kisan Credit card Scheme – Major features

4.2 Major features of the scheme were

- Eligible farmers to be provided with a KCC and a pass-book or a card-cum-pass book. Card to be valid for 3 years subject to annual review. Personal Accident Insurance up to Rs.50,000 to the card holder under Personal Accident Insurance Scheme (PAIS).
- Revolving cash credit facility (RCCF) involving any number of drawals and repayments within the limit. Limit to be fixed on the basis of operational land holding, cropping pattern and scales of finance. Each drawal to be repaid within 12 months.
- Entire production credit needs for full year plus ancillary activities related to crop production to be considered while fixing limit. In due course, allied activities and non-farm credit needs may also be covered. Sub-limits may be fixed at the discretion of the bank. As incentive for good performance, credit limits could be enhanced to take care of increase in costs, change in cropping pattern, etc.
- Conversion/ re-schedulement of loans also permissible in case of damage to crops due to natural calamities.
- Operations may be through issuing branch or at the discretion of bank, through other designated branches. Security, margin, rate of interest as per RBI norms. Interest to be charged on the credit balance in the account. Withdrawals through slips/ cheques accompanied by card and passbook

Rashtriya Krishi Bima Yojana

4.3 Crop loans disbursed under KCC Scheme for notified crops are covered under Rashtriya Krishi Bima Yojana (RKBY). All farmers (both loanees and non-loanees irrespective of their size of holdings) including sharecroppers, tenant farmers growing insurable crops are covered. 50 per cent subsidy in premium allowed to Small and Marginal Farmers, to be shared equally by the Government of India and State Government/ Union Territory.

Personal Accident Insurance Scheme

4.4 A Personal Accident Insurance Scheme (PAIS) is attached with KCC, which covers risk of KCC holders against accidental death or permanent disability upto a maximum amount of Rs.50,000 and Rs.25,000, respectively, resulting from accidents caused by external, violent and visible means. The insurance premium payable on personal accident insurance coverage to KCC holders will be Rs.15 for a one year policy and Rs.45 for three years. The premium payable to the insurance company is shared between the KCC issuing bank and the KCC holder in the ratio of 2:1.

Monitoring and Review

4.5 The issue of KCC is to be closely monitored at block level in BLBC Meetings, at district level in DCC/DLRC meetings and at state level in SLBC/SLMRC Meetings. It is also reviewed in Board Meetings of respective Banks and in State Level Coordination Committee Meetings. Apart from the above, the progress is also reviewed at regular intervals in the meetings of Branch Managers of the banks.

4.6 At the State Level, State Level Monitoring and Review Committee (SLMRC) may be constituted under the Chairmanship of the Secretary (Cooperation) of the State for closer monitoring and review of the progress in implementation of the scheme by the cooperatives and to sort out the operational problems, if any. The Registrar of Cooperative Societies, Managing Director of the State Cooperative Bank and CEOs of select District Central Cooperative Banks besides the Regional Office-in-Charge of NABARD are the other members of the Committee.

4.7 At the National Level, NABARD is reviewing the progress in the implementation of the KCC Scheme in respect of Cooperative Banks and RRBs at various National / State level fora like the meeting of CEOs of SCBs, Chairmen of RRBs, Board Meetings of NAFSCOB etc. The RBI does monitoring of progress in respect of Commercial Banks. GOI and RBI are regularly kept apprised of the progress achieved and steps taken to ensure success of the KCC Scheme.

4.8 In order to facilitate close monitoring of the scheme at the ground level, banks are required to report the progress at monthly / quarterly intervals to NABARD. Banks are also required to report progress of coverage of KCC holders under the Personal Accident Insurance Scheme along with the monthly progress reports under KCC Scheme.

Implementation Aspects of the KCC Scheme

Introduction of the KCC Scheme

4.9 The study revealed that State Cooperative Banks (SCB) were first to launch the KCC scheme, based on the model scheme circulated by NABARD in August 1998. Based on the instructions of SCB, District Central Cooperative Banks (DCCBs) introduced the scheme. Co-operative banks were followed by RRBs and commercial banks. The RRBs had launched the scheme with effect from the year 1998-99 and had formulated their guidelines on the basis of the model scheme circulated by NABARD in August 1998. Commercial Banks had launched the Scheme based on the model scheme circulated by Reserve Bank of India in August 1998.

Eligibility Norms

4.10 As almost one decade has been passed since the introduction of the KCC scheme, several changes has been experienced in eligibility norms of farmers for availing KCC. In case of PACS, all the members with operational holding who were not defaulters were eligible for issuance of KCC. Accordingly, the PACS Secretary restricted the issuance of the KCC taking into account the credit history of the member. If the credit card has been issued and it was not operational and ceased to be operational once the loan disbursed was defaulted. The RRBs also follow almost the same procedure. In the beginning, RRB branches were advised to issue KCC to only those farmers who were having good track record of 2-3 years. However, later on, it modified the instructions to allow the issue of cards to even new borrowers who were considered credit worthy. The bank advised all their branches to issue cards and branch-wise targets were fixed and communicated to adhere to the same. Similar was the case with commercial banks operating across the states. Commercial Bank branches were advised to KCC to only those farmers who were having good track record for the last 2-3 years. However, later on, these instructions were modified allowing the issue of cards to even new borrowers. Controlling offices issued guidelines to all branches for inclusion of new farmers. But in reality, the branches of commercial banks have been issuing cards mostly to existing borrowers only.

Credit Limit

4.11 Initially, while circulating the model scheme on KCC among the banks, RBI and NABARD had recommended KCC for the farmers where requirement of crop loan was Rs.5,000 and more. However, this ceiling was subsequently waived and all the banks were advised that they could work out their own loan limits/ ceiling.

Fixation of Credit Limit

4.12 The model scheme had stipulated that credit limit under KCC may be fixed on the basis of operational land-holding, cropping pattern and scales of finance (SoF) as recommended by District Level Technical Committee (DLTC)/State Level Technical Committee (SLTC). Wherever the DLTC/SLTC have not recommended scale of finance for crops or in the opinion of the bank, recommended lower scales than the required amount, banks were allowed to fix appropriate scales of finance of the crop. However, study revealed that PACS/bank branch did not adhere to the scale of finance scrupulously. As a result the entire credit need of the farmers is not met and they approach other banks, moneylenders and the SHGs in which their wives are members. There is no component of consumer loan in the limit sanctioned by the DCCB. Due to lack of adequate resources at PACS and DCCB level the term loan for allied activities have not been factored in as originally envisaged in the KCC scheme.

4.13 The RRB branches take into account the acreage, cropping pattern and the scale of finance but also the capacity of the borrower while sanctioning credit limit under KCC. But they restrict the loan to the extent of Rs.50,000. Beyond that the issue of collateral security crops up. The commercial banks broadly work out the eligibility as per the KCC scheme. However, they focus on big farmers for financing taking the original title deed as security. Study revealed that commercial banks prescribed per acre limit for irrigated and non-irrigated land for calculating overall limit under KCC.

Restriction on Maximum Limit

4.14 The maximum amount a member can borrow has been fixed by the Co-operative banks in the range of Rs.35,000-Rs. 50,000. According to the farmers the scale of finance coupled with the cap in the form of Individual Maximum Borrowing Power (IMBP) restricts the quantum of loan to them.

4.15 The RRBs and the commercial banks do not have any limit as such. However, due various reasons such as cumbersome paperwork, to avoid risk, need for collateral security, the RRB branches restricted the KCC limit in the range of Rs.50,000-Rs.1,00,00. The commercial bank branches give liberal limit provided the farmer provides them with adequate security in the form of mortgage of land and they are satisfied with the credibility of the farmer.

Seasonal Limit

4.16 As per the guidelines, banks may take into account, while fixing the limit, entire production credit requirement of the farmers for full year including the credit requirement of the farmer for ancillary activities related to cost of production such as maintenance of agricultural machinery/implements, electricity charges, etc. and also allied activities and non-farm activities. Banks may also fix appropriate sub-limits within the overall limit sanctioned, taking into account the seasonality in the credit requirement. However, Co-operative banks had restricted the limit to crop production only based on seasonality. In case of RRB, a credit limit is sanctioned for the entire year and amount is released during Kharif up to 30 September, which is recovered by 31 March. Similarly disbursement is made for Rabi crops and the recovery is due as on 30 June every year. Thus, there is no practice of seasonal limit in RRB also. The study team did not come across seasonality in fixing limit in case of commercial banks.

Credit Limit for working capital for agriculture and allied activities and NFS

4.17 As per the KCC scheme guidelines, in the beginning all the banks had issued instructions for inclusion of short-term fund requirement for meeting the needs of allied activities like dairy poultry or farm machinery as also the working capital requirement for NFS activities being undertaken by farmers in arriving at the limit. However, there is no system of providing credit limit for working capital requirement for agriculture, allied activities and NFS in the KCC itself. The Co-operative banks did not provide for working capital requirements for ancillary activities related to crop production, allied activities and NFS. However, the study observed that in few cases, the RRBs had supported working capital loan under allied activities in the form of KCC. Although there was demand for working capital loan for other allied activities particularly for dairy, the bankers were in hesitation in purveying the same under KCC as the problem of security beyond Rs.50,000, cumbersome documentation, risk of non-recovery, lack of manpower to monitor, etc. discouraged them. They preferred to finance them as term loan in the form of individual loan or SHG lending. The SBI Gold Card, which has provision of term loan for agriculture, was virtually not in operation because of mounting NPAs. The KCC+ of Indian Bank had also component of term loan but the study team did not come across any financing by the bank under that scheme. As regards requirements for consumption purposes, though most of the banks did not show it separately, it was included as 10 per cent over and above the limit sanctioned under crop loan.

Credit Limit for Consumption and other Term Loan (TL) Purposes

4.18 It was observed during the study, the Co-operative banks were not able to meet the crop loan requirement of the members to the fullest extent (as detailed in Chapter V). Therefore, the Co-operative banks were not making any provision for consumption loan in the KCC limit sanctioned due to resource constraint. However, the RRB was making a provision for consumption loan to the extent of 10 per cent of the total limit sanctioned on the KCC. It did not set aside/ afford for any term loan (TL) limit under KCC. The KCC scheme of SBI and the Indian Bank provide for LT loan in their scheme, but that was never implemented in practice as revealed during the study. The bankers normally avoided clubbing of term loan with the crop loan for their accounting problem as according to them the charging of rate of interest, duration, repayment schedule etc. differ.

Types of KCCs Issued

4.19 There is only one type of card in the form of KCC cum Pass Book by all banks. In case of some commercial bank there is no issuance of card as such. However, there was disbursement of crop loan under the scheme for reporting purpose. RRBs have either issued Card-cum-Pass books or a card and a Passbook as KCC. Co-operative banks had devised a Pass Book, which served the purpose of a card - cum – passbook containing all the details about the farmer and his borrowings. The cardholder is also covered with Accident Insurance Benefit of Rs.1, 00,000 governed by the Bank's Insured Current Deposit Scheme. Insurance is optional to the borrower. However, farmers are compulsorily covered under Personal Accident Insurance Scheme (PAIS).

Margin and Security Norms

4.20 There is no margin as such to be provided under KCC scheme of production-orientated system of lending. As regard security it may be observed that under production orientated system of lending a charge is created on the standing crop. However, a mere declaration in favour of the PACS creates a charge on the land. There is a simple mortgage of the land being cultivated by the farmers. In practice PACS keeps the Patadar Pass Book (PPB) and some times even the Title deed (TD) in the loan document as security. In case the PACS/Bank sanctions a special limit and the same exceeds Rs.50,000 then the PACS insist on title deed, Patadar Pass Book and Encumbrance certificate (EC) and also certificate from Mandal Revenue Officer (MRO) are other documents, which are insisted upon by the PACS.

4.21 The documentation of the RRB normally for crop loan upto Rs.50,000 include among others an Agreement for hypothecation of the standing crops and the Patadar Pass Book. In case of loan beyond Rs.50,000 calls for mortgage of registered title deed, Encumbrance certificate, legal opinion, Mandal Revenue Officer certificate. The hypothecation is required to be stamped @ of 0.5 per cent which is not applicable to farmers having land up to 5 acres. The Commercial Bank branches sometimes lend to farmers with established credibility by just retaining the original title deed of the land owned by the farmers. The documentation pertaining to the security in case of loan upto Rs.50,000 cost the farmer Rs.200 to Rs.500. The Village Revenue Officer (VRO) certificate itself cost Rs.120 to Rs.200 and the balance amount is spent on miscellaneous expenditure. The cost goes up once the limit/loan amount exceeds Rs.50,000. The cost of EC works out to Rs.120 to Rs.200, legal opinion is obtained paying Rs.500 (more if the amount of loan is more) and the MRO report cost Rs.100 to Rs.200. The cost as indicated above as per the opinion of the farmers and bankers during the course of the study; the official cost may be less.

Drawal Facilities

4.22 One of the objectives of KCC was to allow flexibility to the farmer for drawal of cash at various branches of the issuing bank particularly those located in semi urban or urban areas to facilitate easy availability of cash for purchase of agri-inputs like fertilizer and pesticides. However, it was found that all the banks have restricted the operations in KCC to the issuing branches only. In case of Co-operative banks, drawals were allowed at the branch of DCCB only. The KCC was being issued by the DCCBs through PACS but the loan was issued at the branch level. Because of the practice of allowing drawals at the branch, the DCCB had maintained an account registrar as "Shadow Accounts" at the PACS level. This was a replica of the loan ledger at the branch. Even though the cash transaction was not being handed over to the PACS, DCCB branches had put in place a system of regular exchange of information between the branch and the PACS.

4.23 There was no practice of issuing Chequebook by the bank branches. The drawals of cash were allowed only through the debit slip at the card-issuing branch only. Discussions with RRB and commercial bank branch managers/officials revealed that branch has not been issuing chequebooks as almost all farmers withdrew the limit in one go. However, if any farmer insists branch was inclined to issue chequebooks.

Repayments and NPA Norms under KCC

4.24 The limit sanctioned under the KCC is in the nature of revolving cash credit and each drawal is repayable within 12 months. Mostly, due dates were fixed based on harvesting/marketing season as was the case prior to introduction of KCC scheme. However, banks advised their branches to fix specific repayment norms while sanctioning credit limit under KCC. In case of DCCB, the due date for repayment was twelve months from the date of drawal. But incase of RRB and the commercial banks, the due dates were 31 March for kharif and 30 September for Rabi. The interest rebate and the interest subvention were applied up to the due date. In case the loan becomes overdue the interest subvention benefit was not extended to the farmers normally from the date of disbursement in case of cooperative banks. They were being charged @11.0 per cent from the date of disbursement and a penal interest was being charged from the date on which it became overdue. In case of RRB and commercial banks, the procedure to work out the recovery was inbuilt in the system. Despite the instructions, the PACS did not segregate interest rebate and interest subvention.

4.25 The study observed that the NPA norms as applied by the Co-operative banks, RRBs and the commercial bank branches were on the lines as prescribed by RBI from time to time.

Coverage of KCC under PAIS and NAIS

4.26 In the model scheme circulated by RBI/NABARD, insurance of the cardholder by the issuing banks was not recommended. Since the introduction of Personal Accident Insurance Scheme (PAIS) in 2001-02, KCC loans are invariably are covered under or PAIS. The banker and the farmer share the premium in a ratio of 2:1 and a premium of Rs.15 is paid for the purpose by the farmer.

4.27 The crop loan disbursed under KCC issued by the DCCB are covered National Agriculture Insurance Scheme (NAIS). For insurance of paddy a premium of 2.5 per cent is collected for farmers with land holding up to 1 ha and @ 4.3 per cent is collected from farmers with more than 1 ha of land. The farmers are not inclined to pay premium under NAIS as according to them the drought comes once in 5 years. Moreover, according to them the risk factor in Rabi is quite minimal. In fact some of the farmers are loading the premium into the effective cost of fund. They are not convinced of the growing menace of climatic change.

Service Charges

4.28 For issuing KCC, most of the banks have been levying fees, which aimed at cost coverage under different names such as service charges, follow-up charges, out-of-pocket expenses/ inspection charges, etc. Some of the banks have also been charging inspection charges as well as application processing charges from the borrower. Co-operative banks have been collecting Rs.10 from KCC holders as cost of the Card. However, the RRB had followed the system of charging a service charge/ processing charge flat @ Rs.250 for loan above Rs. 25,000. The commercial banker claimed that they did not charge service charge but it was reported that they charged inspection charge in case of big farmers.

Opening of S/B Account and Payment of Interest on its Credit Balance

4.29 The KCC holders are required to open a S/B account. However, it was observed that there were not much of transactions in the S/B account except the loan disbursement. In case of RRB and commercial bank branches, there is invariably opening of SB account of the farmers and in very few cases there were quite a few transactions. Normally there was one sort operation of loan disbursement and there was a rare occasion of credit balance. The study team did not come across any record of interest payment on credit balance. Probably, many farmers were not aware of this facility as a result of which many farmers might not be induced to maintain credit balance in the KCC account.

CHAPTER V

Effectiveness of KCC

5.1 The present chapter addresses the efficacy of KCC as an efficient, timely and hassle free credit delivery mechanism to agriculture. As a part of the study, a total of 1876 KCC holders were interviewed to ascertain their viewpoints. These field visits had brought out several important findings, which could have a bearing on the future policy in this regard. These findings also help in speeding up the progress of implementation by highlighting the operational difficulties. The chapter devotes to deliberate on the feedback collected through a semi-structured questionnaire from 1876 sample KCC holders.

Awareness on KCC

5.2 About 19 per cent of the sample KCC holders were not aware of the modalities, usefulness/ benefits of KCC scheme (Table 5.1). Farmers have been issued KCC and sanctioned limits under KCC, but they were not aware of its positive aspects, like, revolving cash credit facility (RCCF) involving any number of drawals and repayments, credit limits for full year including ancillary activities related to crop production and other NFS activities, sub limit for consumption purposes, etc. Agency-wise, 26 per cent sample KCC holders of Co-op banks were not aware of the utilities of KCC, while it was 12 per cent and 14 per cent for Commercial banks and RRBs respectively. Similarly, land holding size-wise, 30 per cent of marginal farmers (<1.00 ha.) and 25 per cent of small farmers (1.01-2.50 ha.) were not aware of the utilities of KCC. All these emphasised that there was hardly any effort from the bank branch/PACS side to create awareness at the ground level so as to reap the benefits of KCC to its maximum extent. Particularly small/marginal farmers who are mostly not well versed with banking practices need to be educated on the usages of KCC.

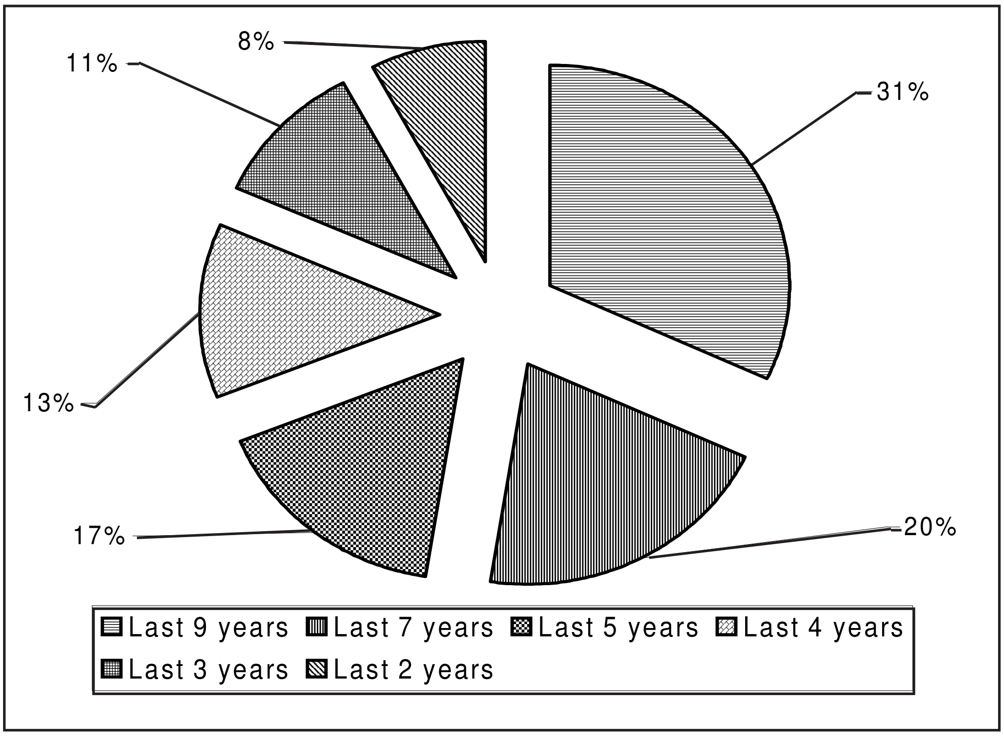
Table 5.1: Awareness on Kisan Credit Card (KCC)

No.	Name of Agencies	Agency-wise				
		Sample Farmers	Yes	%	No	%
1	CBs	533	465	87.24	68	12.76
2	RRB	567	483	85.19	84	14.81
3	Co-op.	776	570	73.45	206	26.55
	Total	1876	1518	80.92	358	19.08
		Land Holding Size-wise (in Ha.)				
1	<1.00	178	124	69.40	55	30.60
2	1.01-2.50	396	296	74.82	100	25.18
3	2.50-5.00	574	488	84.98	86	15.02
4	5.01-10.00	498	402	80.77	96	19.23
5	>10.01	230	208	90.55	22	9.45
	Total	1876	1518	80.92	358	19.08

Coverage of New farmers

5.3 Categorising sample KCC holders in terms of extent of period of holding of KCC revealed that majority of KCC holders (31%) were availing the facilities of KCC since last nine years (Fig 5.1). About 20 per cent were availing KCC since last seven years. Similarly, about 17 per cent, 13 per cent, 11 per cent, 8 per cent were using KCC since last five, four, three, two years, respectively, which implied that every year certain percentage of new farmers were being brought to the KCC fold particularly more prominent during doubling of credit programme (2004-05 to 2006-07) as per the target prescribed by the controlling/head office of the bank. It can also be deduced that quite a significant number of new borrowers had been demanding KCC every year due to its flexibility in usage and other utilities like, flexible drawals, flexible repayment patterns, coverage under NAIS/PAIS, minimum margin/ security norms, etc. Effective publicity and continuous monitoring at the DLCC/BLCC level as also at the level of Controlling/Regional Offices at the district and state level might also have contributed to the larger coverage of new farmers every passing year by the banks.

Fig. 5.1: Coverage of New Farmers under KCC Scheme



Adequacy of Credit

5.4 The KCC scheme envisaged that all the ST credit needs of the farmers including crop loan and other production credit/ working capital/ short-term requirements for non-farm activities need to be covered under KCC. As per guidelines, the KCC holder need to be ensured that he gets adequate credit to meet all of his short term needs through the single window of KCC. However, the study revealed that, as many as 900 sample KCC holders, forming 48 percent of the total covered during field visit, felt that the credit limits sanctioned to them under KCC were not adequate (Table 5.2). Agency-wise, majority KCC holders from Co-op. Banks (60.4%) conveyed their apprehensions on inadequacy of credit followed by RRB (44.3%) and commercial banks (33.8%). Land holding size-wise, while about 60.4 - 64.6 per cent of small and marginal farmers opined that credit limit sanctioned under KCC was inadequate; the same was about 40.2 - 43.5 per cent in case of medium and large farmers. Some of the farmers felt that the scales of finance for different crops fixed by District Level Technical Committee (DLTC), in which cooperative banks had a major say, were on lower side.

Table 5.2: Adequacy of Credit

No.	Name of Agencies	Agency-wise				
		Sample Farmers	Yes	%	No	%
1	CBs	523	346	66.2	177	33.8
2	RRB	587	327	55.7	260	44.3
3	Co-op.	766	303	39.6	463	60.4
	Total	1876	976	52.0	900	48.0
Land Holding Size-wise (in Ha.)						
1	<1.00	178	63	35.4	115	64.6
2	1.01-2.50	396	157	39.6	239	60.4
3	2.51-5.00	574	328	57.1	246	42.9
4	5.01-10.00	498	298	59.8	200	40.2
5	>10.01	230	130	56.5	100	43.5
	Total	1876	976	52.0	900	48.0

5.5 The DLTC is the body having representatives from all major banks including cooperative banks and government departments at the district level. The study revealed that no agency including Co-op. bank had been strictly following the scales of finance (SoF). While the SoF has been fixed at Rs.10,500 – Rs. 13,500 for paddy, limit sanctioned under KCC across all the agencies was much less (Rs.8,500-9500). Limit sanctioned as compared to SoF was less by 19-29 per cent (Table 5.3).

Table 5.3: Inadequacy of Credit :
Limit Sanctioned vs. Scale of Finance

Crop/ Agencies	Limit Sanctd./ Acre (Rs.)	Scales of Finance (Rs.)	Deficit (-)	Per Cent
Paddy	8500 –9500	10500 - 13500	2000 – 4000	19 - 29
Co-op.	6300- 6500	10500 - 13500	4200 – 7000	40 - 52
RRB	9500-10500	10500 - 13500	1000 – 3000	9 - 22
CB	10300-12500	10500 - 13500	200 - 1000	2 - 7

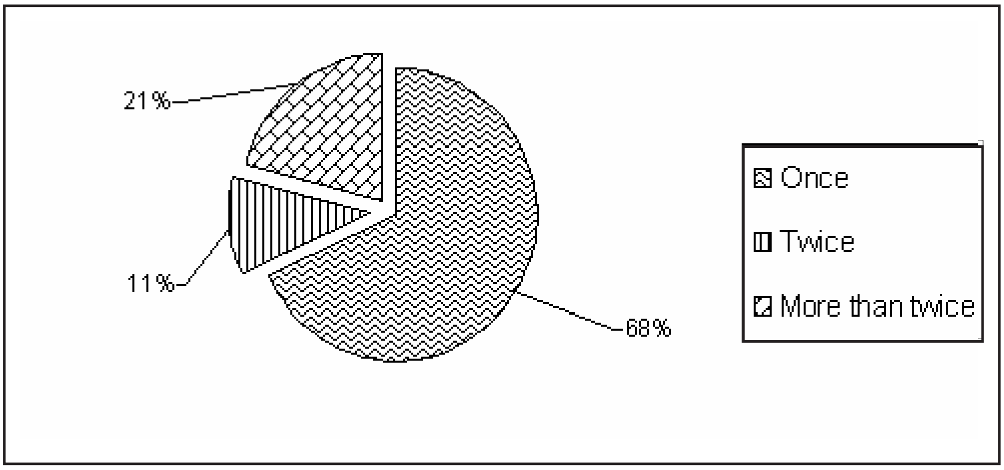
5.6 Agency-wise, limit sanctioned for both the crops was much lower in case of Co-op. as compared to commercial banks and RRB. Further, as envisaged, KCC was to meet the short-term credit need of the farmers for purposes other than raising the crops. However, no agency/bank had been providing such limits while sanctioning the credit limit to farmers under KCC. Perhaps this could be, as viewed by cooperatives, due to the fact that NABARD refinance for seasonal agricultural operations covers only the loans for crops and other part of the limit has to be met out of their own resources by the cooperative banks. The weak resource position of cooperative banks did not permit this. This is a policy issue deserving consideration by NABARD. As against this, the study also showed that commercial banks and RRBs had also not been sanctioning short-term credit for non-crop purposes regularly, which need to be looked into. Commercial banks and RRB viewed that they have been sanctioning 10-20 per cent more over and above what has been sanctioned on the KCC crop limit as consumption component. However, as observed from the above Table, no extra limit has been sanctioned on the KCC crop limit.

Operational Flexibility

5.7 One of the objectives of KCC was to provide flexibility in operation of the credit limit sanctioned to the farmer. Flexibility could be in terms of issuing cheque books, ATM cards specifically for KCC limit, permitting KCC holders to draw cash from branches other than the card issuing branch. With allowing such facilities, the farmer could purchase inputs from the taluka, block or district head quarters and take the advantage of competitive prices of inputs. However, no bank branches/cooperatives had extended this facility to their cardholders.

5.8 Further, it was expected that KCC would provide adequate credit to meet all of the needs as also provide flexibility to draw and repay as and when needed depending upon his cash flow. Frequent transactions would effectively reduce the outstanding loans thereby lowering the interest paid. The data collected and the interaction held with the bankers/KCC holders during the study indicated that the KCC was being used as one shot operation and not as number of times sanctioning of limit, more numbers of withdrawals/deposits as originally envisaged. It failed to become a cash credit (CC) product and most of the KCC holders are deprived of the benefit of interest rate for them. Majority of farmers (68%) had not gone for frequent operations on the limit sanctioned to them under the card and withdrew the sanctioned KCC limit at one go (Fig 5.2). Further, 11 per cent and 21 per cent KCC holders had operated the KCC limit twice and more than twice, respectively.

Fig: 5.2: Operational Frequency of KCC by Sample KCC Holders



5.9 This has been mostly attributed to lack of awareness at the farmers level. Farmers opined that they got this loan sanctioned with much complicated documentations and do not want to come again to the bank to face the same procedure to withdraw the loan. Secondly, some of the farmers who had surplus amount but did not deposit it in the KCC account were under the impression that they would not get any interest on credit balance. Their fears were mostly due to ignorance about the instructions in this regard as most of the banks had issued instruction to their branches to provide interest on the credit balance in the KCC cash credit account. Thirdly, it was observed that bankers also knowingly did not create the awareness among the farmers as credit balance in the account means frequent withdrawal by the farmer resulting in additional transaction cost to the bankers in terms of devoting time and money. Further, bank would lose interest income in the credit balance in the KCC account.

Credit Usage

5.10 The study revealed that the average loan disbursed was utilised both for consumption and for buying inputs for application in agriculture. As per KCC guidelines, banks had followed a flexible/

liberal approach regarding the monitoring the end use like not insisting on documentary proofs of purchase of inputs etc. The observations from the field indicated that all the farmers had used the major portion of their average loan disbursed for financing their expenses on raising the crops. About 17 per cent of the credit limit sanctioned under KCC was being used for non-production (consumption) purposes. Agency-wise, sample KCC holders from Co-operative Banks had utilised about 6 per cent of their average loan disbursed for consumption purposes, as against 18 - 20 per cent in case of both commercial banks and RRBs (Table 5.4). Land holding size-wise, small/marginal farmers (29-30 per cent) used larger portion of average loan disbursed for non-production purposes as against medium/large farmers (16-25 per cent).

5.11 This finding calls for an immediate policy action that irrespective of agencies, all need to enhance their KCC limit at least by 20-25 per cent so that to accommodate partially the consumption expenditure by the KCC holders. As per guidelines, KCC limit had the provision of sanction of certain amount to meet the cash outflows on consumption expenses. However, in Krishna district, except commercial banks, KDCCB and even RRB was not meticulously followed this guidelines. While commercial banks claimed that they have been sanctioned 10-20 per cent more on KCC limit to meet the cash outflows on consumption expenses, SGB had issued guidelines to all branches to enhance the same by 10 per cent. However, out of four SGB branches studied, one branch had not sanctioned any enhanced limit for consumption purposes. However, the study had not come across any complete misutilisation/diversion of the credit facility given under the KCC.

Documentation Processes

5.12 The farmers expressed some relief in terms of sanctioning credit limit once in 3 years and drawing the limit once in a year. But, they had some concern relating to sanctioning of credit limit particularly by the cooperatives. The documentation required has to be simplified in such a manner that they should make limited number of visits to the revenue officials, Secretary of PACS. The Secretary of PACS after receiving an application along with the certificate from VRO containing the survey number etc. in respect of the land of the farmers awaits for other farmers to prepare a Normal Credit Limit Application (NCLA) to be submitted to the DCCB. The secretary prepares the NCLA for

Table 5.4: Utilisation of KCC Limit for Production and Consumption purposes –Agency-wise/Land Holding Size-wise

No.	Name of Agencies	Agency-wise				
		Sample Farmers	Avg. Loan Disb. (Rs.)	Use for Crop Prod. (Rs.)	Use for Cosn.(Rs.)	Per cent
1	CBs	523	102300	81400	20900	20.4
2	RRB	587	101200	82800	18400	18.2
3	DCCB	766	38600	36200	2400	6.2
	Total	1876	80700	66800	13900	17.2
LH Size (ac.)		Land Holding Size-wise (in Ha.)				
1	<1.00	178	9800	7100	2700	27.6
2	1.01-2.50	396	21500	15600	5900	27.4
3	2.51-5.00	574	45200	33100	12100	26.8
4	5.01-10.00	498	105200	85800	19400	18.4
5	>10.01	230	221800	201600	20200	9.1
	Total	1876	80700	66800	13900	17.2

all the eligible farmers in the village/s and then submits to the DCCB. The DCCB sanctions the same in the light of the resource available with them and the eligibility of the PACS. The process takes about a month. However, to meet his requirement the farmers avails loan from moneylender or other private source with high rate of interest. If the loan exceeds Rs.50,000 or the farmer is sanctioned a special loan then the PACS insists on the title deed, EC and mortgage to be registered at the sub register office.

5.13 In case of RRB, crop loan through KCC up to Rs.50,000 was relatively hassle free but the documentation is still elaborate. The study team came across that an application for a loan below Rs.50,000 required the application form, photograph, asset liability statement of the borrower, Demand Promissory Note (DPN), Agreement for hypothecation, letter of authorization, documents delivery letter, consent letter from borrower for disclosure of information, photo identity card, copy of ration card, VRO certificate on cropping pattern, no due certificate and original or copy of Pattdar Pass Book (PPB). If the limit is beyond Rs.50,000 the registered title deed, Non Encumbrance certificate, legal opinion, valuation report, stamping of hypothecation @ 0.5 per cent of the loan if the land exceeds 5.0 acres, stamping for mortgage at 0.5 per cent, for registered mortgage stamping at 3.0 per cent, etc. were required. Therefore, RRB may release the loan up to Rs50,000 within a day or two once the complete application is received and the documentation is simplified so as to make it hassle free. The loan beyond Rs.50,000 is definitely not hassle free as the security in the form of mortgage and EC are time consuming involving several visits to the revenue officials, banks, etc., resulting in loss of man days and consequent high transaction cost for the borrower.

Farmers' Perceptions

Hassle Free Card

5.14 Sample KCC Holders were asked about their perceptions on KCC as a hassle free card. A staggering 1426 respondents constituting 78 per cent of the total sample respondents responded that KCC was truly a hassle free card (Fig. 5.3). Agency-wise, majority of KCC holders from commercial banks (81 per cent) viewed that KCC was hassle free followed by RRB (76 per cent) and Co-operative Banks (68 per cent). During the interaction with the farmers it was gathered that KCC holders got some relief in terms of sanctioning credit limit once in three years and drawing the limit once in a year. However, if observed closely, the view was quite paradoxical, if compared to their response regarding awareness on KCC as also on adequacy of KCC limit. Respondents viewed that as compared to the pre KCC situation, two reasons were responsible for making KCC a hassle free credit delivery system. They had experienced flexibility and simplicity in availing credit, utilising the same in their own way they liked and repaying the KCC limit sanctioned under KCC.

Fig 5.3(a): Perception on KCC as a Hassle Free Card- Overall

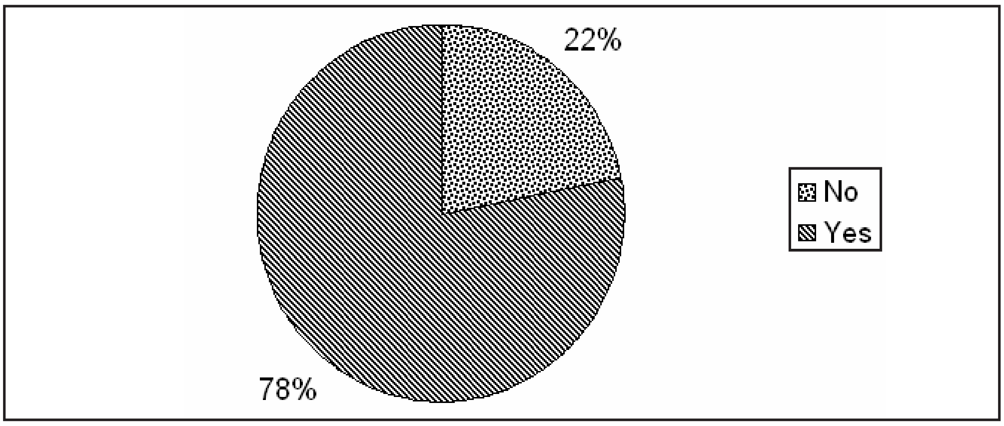
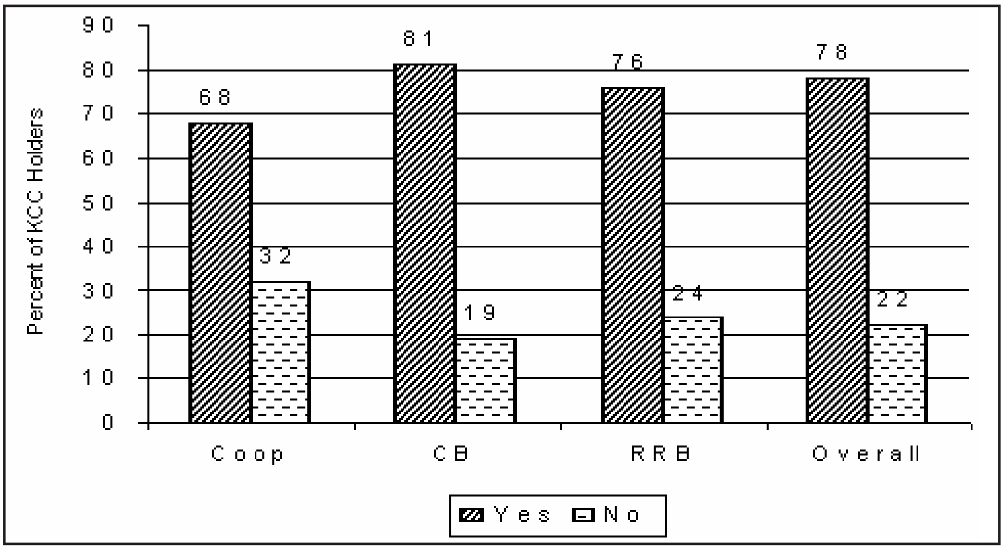


Fig 5.3(b): Perception on KCC as a Hassle Free Card-Agency-wise



Purchase of Inputs

5.18 The perceptions of KCC holders on the utility of the KCC credit limit in inputs purchase was ascertained from the respondents. Majority of respondents (76%) were of the opinion that the KCC was extremely useful in regards to reduced cost of accessing credit as compared to the earlier system of crop delivery system.

- Firstly, they had the freedom to utilise the limit sanctioned under KCC as banks did not insist to lift a portion of limit on kind.
- Secondly, they buy the inputs like fertilisers and chemicals as and when they wish.
- Thirdly, farmers had the more bargaining power as they were paying the prices in cash. They also had a wider choice in selecting shops /dealers.
- Fourthly, they were not required to obtain bills /receipts as a documentary proof against buying inputs which were necessary in the earlier system.

Tenure of KCC

5.19 Presently, the KCC is valid for three years. The credit limit sanctioned in the current year, was renewed next year with a 10 per cent increase in the limit sanctioned. There was no requirement of approaching the bank with fresh application along with documentation. Farmers were asked about their opinion on increasing the validity of KCC to five years. The feedback received from the farmers and bankers regarding increasing the tenure of KCC to 5 years from its present tenure of 3 years was quite positive. However, there were a few operational issues involved in this regard. They were like, the application of law of limitation i.e. the documents become time barred after 3 years of date of disbursement of the loan, upward revision of limit in the light of the revision in scale of finance. However, increasing the tenure into 5 years would save the man-days and cost as well. About 118 KCC holders constituting 80 per cent of the total responded positively to the proposal of increasing the validity of KCC to five years (Fig 5.4 (a). Rest 20 per cent were apprehensive of the proposal of raising the validity to five years. They were hesitant as they were doubtful on the role of a long tenure KCC on annual renewals, costs involved, role of new KCC in increased cost of cultivation/Scales of finance, changes in cropping pattern, etc. Agency-wise, majority of farmers from RRB (26%) were not in favour of a long tenure KCC (Fig 5.4 (b).

Perceptions on increasing the Tenure of KCC to Five Years

Fig 5.4 (a): Overall

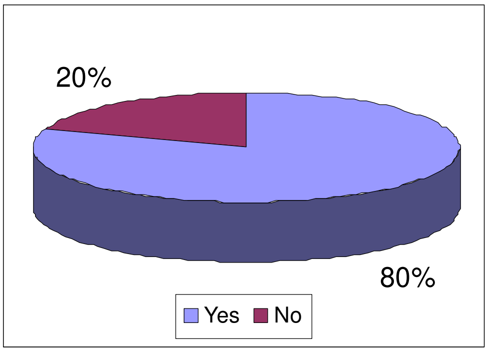
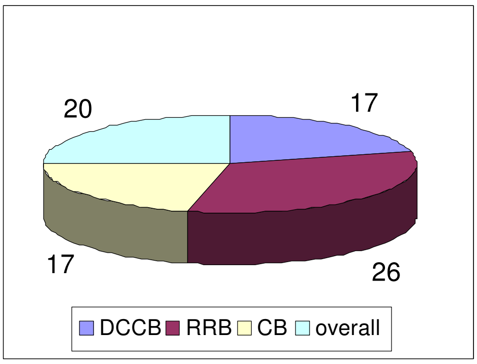


Fig 5.4 (b): Agency-wise



Overall Efficacy/Benefits of KCC

5.20 Farmers viewed that KCC was beneficial to them in more than one way. The KCC holders got benefits like, (i) meeting credit requirements for crop cultivation for the whole year, (ii) availability of credit whenever the credit is needed, (iii) flexibility in drawing cash/ buying inputs from any supplier of choice, (iv) reduction in quantum of interest due to drawal flexibility/ repayment, (v) reduction in cost of credit for availing the bank loan, (vi) insurance cover (NAIS/PAIS) at a very low premium rate.

5.21 The field study revealed that the KCC scheme was meeting the credit requirement of the KCC holder to a great extent but not adequately. However, by fixing the limit for three years the banks were assuring the farmers credit with no extra hassles of documentation other worries. It was giving the farmer the flexibility to draw/deposit as and when necessary. However, in practice the same had not happened in many banks. The KCC holder was not allowed to draw from any other branch and was not encouraged to draw/deposit number of times in the same branch as the same would jack up the workload for the branch and involved loss of interest to the bank. The farmers were, however, mostly covered under NAIS and PAIS.

5.22 However, notwithstanding these negative aspects, out of the 1876 farmers interviewed, 1463 accounting for 78 per cent of total sample felt that the KCC was very much farmer friendly. Most important efficiency parameters as viewed by KCC holders in order were as mentioned in the Table 5.5.

Table 5.5: Overall Efficacy of KCC as viewed by Sample KCC Holders

No.	Beneficial Parameters	No. of Farmers	Per cent	Rank
1	Savings in annual renewal cost	1745	93	1
2	Timely availability of credit	1576	84	2
3	Hassle free Card	1463	78	3
4	Reduced cost of accessing credit	1426	76	4
5	Operational flexibility	1201	64	5
6	Savings in interest charged on KCC	844	45	7
7	Adequate credit	976	52	6
8	Hassle free repayments procedure	544	29	8

CHAPTER VI

IMPACT OF KCC And COST OF CREDIT

6.1 The chapter assess the impact of KCC on the farmers and yield of crops. Accordingly, the cost of credit to the KCC holders has been computed.

Productivity of Crops, Cost of Cultivation and Gross Value of Output

Productivity of Crops

6.1 Sample KCC holders across the States had cultivated one major crop (paddy) by availing crop credit from different agencies. Average productivity per hectare of this crop taken up by KCC holders was compared with the average yield level of 'control' farmers. Control farmers were non KCC holders and tenant farmers who had availed loan from informal sources but not under KCC scheme. The overall productivity of paddy grown by KCC holders was higher by 13.3 per cent as against the yield level by control farmers (Table 6.1). The whole of the yield increase was partly attributed to the credit access through KCC. The adequate application of comparatively higher doses of inputs like fertiliser, manure, pesticide, labour, irrigation waters, etc. by KCC farmers are contributing factors for improvement of yield level.

Cost of Cultivation and Gross Value of Production

6.2 The cost of cultivation and gross value of output for sample KCC holders per hactare are also presented in Table 6.1. It may be observed from the Table that gross value of output per hectare was higher for paddy (13.3 per cent) cultivated by KCC holders as compared to the control farmers. For paddy it was Rs.17,500 - 31,500 for KCC farmers, as against Rs.13,500 - 25,500 for control farmers. The corresponding cost of cultivation for paddy Rs.11,100 – 14,500 (KCC farmers) and Rs.10500 - 13000 (control farmers), respectively. The cost of cultivation per acre was higher by 7.6 per cent for paddy[14]. The cost of cultivation was higher for KCC farmers on account of comparatively higher doses of application of various inputs resulting in higher yield by KCC farmers as compared to the control farmers under paddy crop.

14 However, the control group (mostly tenant farmers) might not have availed credit through KCC, but has been availing credit from informal sources. Some of the owner farmers were passing on the KCC limit sanctioned to them to these tenant farmers. Therefore, any differential in yield, cost of cultivation, etc. may not be directly attributed to the issue or non-issue of KCC limits.

Table 6.1: Productivity of Crop, Cost of Cultivation and Gross Value of Output - Paddy

Crop	KCC Holders	Control Group	Difference	Per cent
Yield of Crops (Qntl./ha.)				
Paddy	18-34	14-26	4-8	13.3
Cost of Cultivation (CoC) of Crops (Rs./ha.)				
Paddy	11100- 14500	10500 - 13000	600 – 1500	7.6
Value of Output (VoP) of Crops (Rs./ha.)				
Paddy	17500 - 31500	13500 - 25500	4000 – 6000	13.6

Real Cost of Credit

6.3 The real cost of credit were estimated based on the primary data collected during the study. This cost includes charges on various documents required for sanction of loan, payment of fees for issue of card, seeking legal opinion and opportunity cost of the borrower.

Documents and Charges

6.4 The documents collected for sanction of loan by most of the banks were:

- Copy of land patta (local name) indicating the ownership of the land and the liabilities, land map, land records, cropping pattern, etc. issued by Revenue department (Rs.200).
- 'Non-Encumbrance Certificate' for loan >Rs.50,000 (Rs.200).
- Although 'No Dues Certificate' (NOC) has been dispensed with, many banks/PACS asked for it from nearby Bank branches (varied from Rs10 to Rs.100 per branch) normally Rs.50-Rs.100 per loan.
- For loan amount above Rs.50,000, which involves legal opinion by the borrower, involving an expenditure of Rs.500 across agencies.
- For loan amount above Rs.50,000, which involves mortgage of land, a declaration in a Form signed by the borrower and with two witnesses (copies sent to Sub registrar and *Tahasildar*) in stamp paper (of Rs.100)

- Mortgage of land for loan above Rs. 25,000 for immovables and Rs. 15,000 for movables (0.5%).
- For 10 ha. and above and loan amount of >Rs.5,00,000, registered mortgage (stamp duty @3% of loan amount)
- Affidavit declaring about the ownership of land and utilization of loan amount.
- Valuation certificate (actually Rs.200), but farmers are paying a minimum of Rs.1,000).
- Other costs involved included processing charges, inspection charges (mostly by commercial bank), share capital (10% of loan in case of PACS), crop insurance (varying depending on crops), Personal Accidental Insurance, etc. Various expenditures on documentation/service charges for availing credit limit under KCC from PACS, RRB & CBs is as presented in Table 6.2.

Table 6.2: Various Documentation/Service Charges by PACS, RRB and CBs for availing Credit Limit under KCC

(Rs.)

No.	Particulars	Coop./PACS	RRB	CBs
1.	Cost of the card	10	---	---
3.	Service charges@	---	250	---
4.	VRO certificate	100	100	100
5.	Encumbrance Certificate*	200	200	200
6.	Legal opinion*	500	500	500
7.	Valuation report$	1000	1000	1000
8.	Hypothecation (Stamp duty) (%)*	0.5	0.5	0.5
9.	Mortgage (%)*	0.5	0.5	0.5
10.	Registered mortgage (%)#	3.0	3.0	3.0

for loan amount of >Rs3,00,000, @ for loan amonunt of >Rs25,000, *for loan amount of >Rs50,000, $ actually it is Rs.200. However, farmers are paying minimum of Rs.1,000.

Rate of Interest

6.5 Rate of interest charged for loans varied from 7.0 per cent to 12.5 per cent in case of both commercial banks and RRBs depending upon the loan amounts / slabs. Commercial banks charged 7.0 per cent for loan up to Rs.3 lakh and for >3.00 to 5.00 it was BPLR + 0.50 per cent and for >5.00, it was BPLR + 1.00 per cent. However, it varies from bank to bank. PACS charged interest rate @ (7.0 +) per cent as mentioned in the registrar. However, if loan is repaid in time and is not overdue they charged @ 7.0 per cent.

Opportunity Cost of the Time Spent

6.6 An attempt was made to calculate the opportunity cost for the time spent by the borrowers in the formalities associated with sanctioning of loan For quantification, time spent by the borrowers was valued at par with the wage rate for agricultural labours in the study area. Time taken in sanctioning of loan after submitting loan application ranged between 20-25 days in PACS averaged to 22.5 days for the total (Table 6.3).

Table 6.3: Opportunity Cost of time spent for availing loan

No.	Particulars	Com. Banks	RRB	PACS	Total Weighted. Average
1	Delay in sanctioning loan (days)	5.5	7.4	22.5	13.0
2	No. of visit to bank for sanction	3	3	3	2.8
3	Time taken per visit (hrs)	1.8	1.9	0.7	1.5
4	Time spent in the process (hrs.)	5.4	6.1	2.5	4.4
5	Cost of time spent * (Rs.)	68	76	31	55
6	Cost travelling / visit (Rs.)	23	24	11	18
7	Total cost for travel (Rs.)	91	100	42	73
8	Total cost(Rs.)	182	200	84	146

* valued @ Rs.100 per standard man day(8hrs.)

6.7 Simple formalities involved in sanction and renewal of KCC contributed to most delay in PACS. The results indicated that borrowers in PACS spent most time but minimum money for completing sanction formalities - Rs.84. when compared to Rs.200 incurred by borrowers who took loan from RRB and Rs.182 for commercial banks loans. For the overall sample, opportunity cost of time spent on formalities was valued at Rs.146. The difference in the cost across agencies was on account of nearness to the bank branches and formalities involved, efficiency and approach of the staff in sanctioning of loans.

6.8 Loaning operation with PACS was found costly[15] as interest and non-interest cost of borrowing worked out to be the highest and ranged from 8.25 to 9.50 across slabs followed by RRB (7.50 – 8.75) and commercial banks (7.25 – 8.00). Low level of interest rates led to the borrowing from commercial banks as the cheapest among various agencies, covered under the study at 7.25 – 9.50 per cent level (Table 6.4). High rate of interest charged by PACS on account of their high cost of fund made their product costly.

Table 6.4: Effective Rate of Interest for Availing Loans

(in % age)

No.	Particulars	Rs. 25000	Rs.25001-50000	Rs >Rs.50000
1	Commercial Banks	7.25 (7.0)	7.50 (7.0)	8.00 (7.0)
2	RRB	7.50 (7.0)	8.25 (7.0)	8.75 (7.0)
3	PACS	8.25 (7.0)	8.75 (7.0)	9.50 (7.0)

Figures in parenthesis refer to nominal interest rates

6.9 As regard charging of interest rate the procedure being followed by the cooperatives leaves lot of scope for improvement. In case of first time member/borrower, a 10 per cent share capital was being deducted which means the PACS was charging the rate of interest of 7 per cent upfront. Further, the interest subvention benefit was being extended to farmers only if the loan is not due for repayment. If it is

15 Effective rate of interest includes both interest rate (nominal) and non-interest rate.

overdue, interest was charged at (7 plus) per cent from the date of disbursement. If the repayment is not received on the due date, a penal interest of 0.75 per cent was being charged.

Results and Discussion of Regression Models:

In order to study the determinants of credit requirement under KCC, the study team has applied cross-sectional multiple step-wise regression analysis using data for the 1876 sample KCC farmers. Among the explanatory variables, we have taken cost of cultivation, consumption loan, loan for allied sector and Non-farm sector activities. Using dummy variables (KCC holders and Non-KCC holders), the intercept term has been allowed to vary across the cost of cultivation over time, so as to pick up difference in crop productivity In the regression model, the dependent variables credit requirement is frequently influenced not only by variables that can be readily quantified on some well-defined scale (i.e. cost of cultivation, consumption requirement, loans required for allied sector and Non-farm sector activities, etc.), but also by variables that are essentially qualitative in nature (i.e. KCC holders and Non-KCC holders). Since such qualitative variables usually indicate the presence or absence of an attribute (in the present study it is either KCC holders or Non-KCC holders), one method of 'quantifying' such attribute is by constructing artificial variables that take on values of 1 or 0, 0 indicating the absence of an attribute and 1 indicating the presence (or possession) of that attribute. Variables that assume such as 0 and 1 value are called dummy variables.

Analytical Model:

The ordinary least square model has been applied to analyse the factors accountable for total credit requirement (aggregate of crop loan, consumption loan and loan required for allied and NFS activities). The functional form of the model in log-linear form is:

$$CR = f_i(X_{ij}) \quad \text{or} \quad CR = f_j\ (COC, CL, LAC)$$

Where i, stands for individual KCC holders; j for exogenous variables;

CR = Credit Requirement,

Xj = exogenous variables i.e. cost of cultivation, consumption loan, loan for allied and Non-farm sector &

Uj = random unobserved disturbance with zero mean and a constant variance.

By taking log-linear model the model becomes;

$$\text{Ln } CR = \ln \alpha + \beta_1 \ln COC + \beta_2 \ln CL + \beta_3 \ln LAC + \xi$$

Where, α = Constant term, COC = cost of cultivation, CL = consumption loan, LAC = loan for allied and Non-farm sector & ξ = error term

Here the technique of dummy variable has been extended to handle qualitative variable i.e. KCC holders and non-KCC holders.

Now we can write the above function as

$$CR = \alpha + \beta_1 COC + \beta_2 CL + \beta_3 LAC + \beta_4 D_4 + \xi$$

Where,

D_4 = 1 if, KCC holders

= 0, otherwise

In case of ANOVA model, the regression model contains explanatory variable that are exclusively dummy, or qualitative, in nature. For example, we have taken the following model:

$$Y_i = \alpha_i + \beta_i D_i + \xi_i$$

Where, Y = Crop yield,

Di = 1 if, KCC holders

= 0, otherwise

The results corresponding to above regression are as follows:

$$\hat{Y}i = 20.30 + 4.69\ Di$$
$$t = (57.74) \qquad (7.439) \qquad R^2 = 0.7648$$

As these results show, the estimated mean yield (Quintals/Hectare) of Non-KCC holders is 20.30 Qtls./Ha.(á) and of KCC holders is 24.99 Qtls./Ha. (á+â). Since âi is statistically significant, the results indicate that the mean yield level of the two categories (KCC holders & Non-KCC holders) is different. If all other variables are held constant, it may be very well concluded that there is a significant difference in the yield level of the two categories. However, the present model is too simple to answer this question definitely, especially in view of the cross-sectional data used in the analysis.

To draw the best-fit regression equation, the study team have adopted the method of stepwise regression. This procedure evaluates each variable in turn on the basis of extent of correlation (Correlation matrix) and accumulates the model by adding variables sequentially. The variable having highest correlation with the dependent variable could be added to the model first, then the second best or so on. Variables are added as long as R^2 is increasing. To avoid the problem of multi-collinearity[16], we dropped many variables from the model and selected only three variables.

Details are given in the Appendix.

Table 6.5 Statistical results of step-wise regression model – sample KCC holders

Variables	COC	LAC	CL
Co-efficients	0.4329*	0.2142*	0.1339**
't' value	2.92	2.74	1.98

R^2 = .9724, Ŕ^2 = .9614, 'F' value = 88.19, 'D' stat = 2.34 DL = 0.525 DU = 2.016

D.F. = 1872

* Stands for 5% level of significance. ** Stands for 10% level of significance

The estimated elasticities[17] β_i for all the variables with respect to total credit requirement for the sample KCC holders are presented in Table 6.5. It is observed from the table that Cost of Cultivation (0.4329) as a whole influence significantly to the credit requirement compared to other variables, i.e. Consumption Loan (0.1339) and Loan for allied and Non-farm sector (0.2142).

16 Multi-collinearity occurs where there is strong relationship among explanatory variables.

17 Increase in percentage term of independent variable tends to increase/decrease in percentage term of dependent variable.

Table 6.6 Statistical results of regression model having dummy variables – KCC holders

Varible/s	Co-efficient	St.dev.	t - ratio
Constant	37.07		
Cost of Cultivation	0.3461**	0.138	2.499
Dummy variable	165.57*	3.680	24.47
	D.F–1874	$R^2 = 0.36$	$\acute{R}^2 = 0.29$

Dummy variable = KCC holders
* Stands for 5% level of significance, ** Stands for 10% level of significance

In the above model, there are one quantitative explanatory variable, cost of cultivation and one qualitative variable. Coefficients of all these variables are statistically significant at the 5% level.

Average level of credit requirement of Non KCC holders (i.e. when the dummy variable takes a value of zero) and average level of credit requirement of KCC holders (i.e. when the dummy variable is equal to 1) are

TCi = 37.07 + .3461COCi -------------------(I)

TCi = 202.64 + .3461COCi -----------------(II) respectively.

For significance, we have used various statistical tools like “t” value and R^2. For cross section analysis, we have taken care of the multi-collinearity problem by taking one variable at a time considering the high value in correlation matrix.

APPENDIX

Correlation Matrix has 4 rows and 4 columns.

	TC	COC	CL	LAC
TC	1.0000	0.5714	0.1428	0.2856
COC	0.5714	1.0000	0.3429	0.6581
CL	0.1428	0.3429	1.0000	0.4578
LAC	0.2856	0.6581	0.4578	1.0000

Step-wise regression results

Step – I

OLS regression Expl. Variable(s) = COC

Dep. var. = TC Mean = 226550 , S.D.= 24.2774830E-01

Model size: Observations = 1876, Parameters = 2, Deg.Fr.= 1874

Residuals: Sum of squares= .4408017005E-03, Std.Dev.= .00577

Fit: R-squared= .674568, Adjusted R-squared = .61478

Model test: F[1, 1874] = 60.51, Prob value = .00000

Diagnostic: Log-L = 41.6288, Restricted(b=0) Log-L = 20.5691

LogAmemiyaPrCrt.= -7.129, Akaike Info. Crt.= -4.9478

Step – II

OLS regression Expl. Variable(s) = COC, CL

Dep. var. = TC Mean = 226550 , S.D.= 24.2774830E-01

Model size: Observations = 1876, Parameters = 2, Deg.Fr.= 1874

Residuals: Sum of squares= .4408017005E-03, Std.Dev.= .00577

Fit: R-squared= .751234, Adjusted R-squared = .72238

Model test: F[2, 1874] = 67.45, Prob value = .00000

Diagnostic: Log-L = 45.7598, Restricted(b=0) Log-L = 23.5476

LogAmemiyaPrCrt.= -7.845, Akaike Info. Crt.= -5.215

Step – III

OLS regression Expl. Variable(s) = COC, CL, LAC

Dep. var. = TC Mean = 226550 , S.D.= 24.2774830E-01

Model size: Observations = 1876, Parameters = 2, Deg.Fr.= 1874

Residuals: Sum of squares= .4408017005E-03, Std.Dev.= .00577

Fit: R-squared= .782376, Adjusted R-squared = .76595

Model test: F[3, 1874] = 76.26, Prob value = .00000

Diagnostic: Log-L = 52.9871, Restricted(b=0) Log-L = 27.9876

LogAmemiyaPrCrt.= -8.134, Akaike Info. Crt.= -5.673

CHAPTER VII

Kisan Credit Cards - Issues and Constraints

7.1 The study has brought to light certain operational issues, mainly pertaining to the varying eligibility criteria adopted by the banks for issue of KCCs, fixing of due dates, interest rates, levy of service charges, remittance of crop insurance premium, etc. Some of these issues are enumerated as under.

7.2 It was observed during the study that the KCC was mostly being issued to the farmers once only. The limit was being revised every three years on the basis of the revised SoF and cropping pattern. However, in a few cases there was drastic upward revision of the limit and a new card was being issued which sometimes counted again resulting in double counting and increasing the number of card issued.

7.3 Though there is evidence of the KCC being more flexible and used as a cash credit (CC) facility, it appeared that most of the beneficiaries used it as one shot of operation. By and large one disbursement per season was observed in the KCC. The study revealed that the farmers were apprehensive of repaying installments as if, they might not be allowed to draw for the next crop. That the scheme allows frequent drawals and that the sanction will not cease on the repayment of annual limit / sub limits needs to be popularised among KCC holders. It was revealed that the KCC holder was apprehensive that if he repays he will not be able to draw further credit as and when he wants. In view of this the improvement in velocity of credit and recycling was not evident in KCC accounts. At the same time, it needs to be popularized that the credit balance in the accounts will earn savings bank rate of interest.

7.4 The study observed that the cost reduction was not fully evident. That the KCC mode is cost effective needs to be firmly established. Savings in expenditure (cost) in the form of stamp duty and savings in expenses incurred in connection with the number of visits to the bank at pre-sanction stage are evident. As against this, the levy of service and other charges, which were, not there in the previous crop loan system could increase the cost. Since these costs are incurred only once, the annualised cost impact may not be very heavy as KCC limit is sanctioned for three years, and after three years only again documentation and expenses are required.

7.5 KCC Scheme covers all the crops and the entire year's requirement. As it is issued for a higher amount than the previous crop loan, Stamp duty on account of registered mortgage increases the cost substantially. It was observed that the stamp duty could hinder larger size loans under KCC. In case of larger limits the search fee could also increase the cost. This needs to be pursued vigorously in different forums like, SLBC, etc.

7.6 The crop insurance scheme continues to pose problems on account of limitations in the crop cutting experiments (CCEs) and non-coverage of certain crops. KCC gives the farmer the flexibility to draw the amount of loan any time whereas only those loans which are drawn strictly within the season gets covered under crop insurance. Similarly, if a farmer were to use his money initially and draw the bank loan later he could be deprived of the insurance due to seasonality stipulations. This could pose many problems in the coverage of insurance scheme.

7.7 It is learnt that banks find it difficult to maintain data on crop-wise loan issued and outstanding. One of the stipulations is that while disbursing the money the bank will ask for and maintain crop wise data. Given that the money can be drawn in any branch such a procedure is impracticable, as it would call for movement of MIS between branches. The field visit has also shown that the actual crop grown and crop reckoned for the limit could be at variance. Here again the insurance coverage could pose difficulties.

7.8 Though land taken under oral lease can be considered for arriving at the KCC limit, there was no evidence of its acceptance. Banks felt that acceptance of oral lease could result in double financing as both the owner and the lessee can avail bank credit. Instances of farmers who have given the land in oral lease but enjoying credit with the banks have been noticed.

7.9 The moneylender / commission agents play a crucial role in financing the farmer. The scope of KCC needs to be expanded further to create more farmer's friendly environment so as to shift more farmers from informal to formal sources.

7.10 Management Information System (MIS) by controlling authorities on production credit, filling up LBRs, and claims/ premium on crop insurance, crop-wise data (OPP or NODP etc.), on disbursement and outstanding. This necessitates generation of large volume of data on sub-limits and various crops covered by KCC. This also calls for exclusive back up data. As the banks have to reduce cost of operations they feel that the data requirement is large and there is redundancy. The MIS needs may be re-looked, as the workload needs to be reduced.

7.11 'Cheque facility' in the KCC is not fully evident. The use of the 'Debit slip' system by most of the farmers restricts the operation of the KCC to the issuing branch/ society.

7.12 The study revealed that the DCCB was not making any provision for consumption loan in the KCC due to resource constraint. In fact it was not being able to meet the crop loan requirement of the members. The RRB was making a provision for consumption loan to the extent of 10 per cent of the total loan. However, it did not provide for term loan. The KCC scheme of SBI and the Indian Bank provided for LT loan in their scheme, but that was never implemented in practice as revealed during the study. The bankers normally avoid clubbing of term loan with the crop loan for their accounting problem as according to them the charging of rate of interest, duration, repayment schedule etc. differs. Perhaps large-scale computerization with appropriate soft ware may address the problem.

7.13 As regard charging of interest rate the procedure being followed by the cooperatives leaves lot of scope for improvement. In case of first time member/borrower, a 10 per cent share capital was being deducted which means the PACS was charging the rate of interest of 7 per cent upfront. Further, the interest subvention benefit was being extended to farmers only if the loan is not due per repayment. If it is overdue, interest was charged at 11per cent from the date of disbursement. If the repayment is not received on the due date, a penal interest of 0.75 per cent was being charged.

7.14 During the interaction with the farmers it was gathered that the there is some relief for the farmers in terms of sanctioning credit limit once in three years and drawing the limit once in a year. But, they expressed some concern in matters relating to sanctioning of credit limit particularly by the cooperatives. The documentation required according them has to be simplified as it makes them visit to the revenue officials, Secretary of PACS number of times. The Secretary of PACS after receiving an application along with the certificate from VRO containing the survey number etc. in respect of the land of the farmers awaits for other farmers to prepare a Normal Credit Limit Application to be submitted to the DCCB. Once he prepares the same for all the eligible farmers in the village/s he submits the same to the DCCB. The DCCB sanctions the same in the light of the resource available with them and the eligibility of the PACS. The process takes about one month. However, to meet his requirement the farmers avails loan from moneylender or other private source with high rate of interest. If the loan exceeds Rs.50,000 or the farmer is sanctioned a special loan then the PACS insists on the title deed, EC and mortgage to be registered at the sub register office.

7.15 In case of RRB, crop loan through KCC up to Rs.50,000 was relatively hassle free but the documentation is still elaborate. The study team came across that an application for a loan below Rs.50,000 required the application form, photograph, asset liability statement of the borrower, Demand Promissory Note (DPN), Agreement for hypothecation, letter of authorization, documents delivery letter, consent letter from borrower for disclosure of information, photo identity card, copy of ration card, VRO certificate on cropping pattern, no due certificate and original or copy of Pattdar Pass Book (PPB). If the limit is beyond Rs.50,000 the registered title deed, Non Encumbrance certificate, legal opinion, MRO's report , stamping of hypothecation @ 0.5% of the loan if the land exceeds 5.0 acres, stamping for mortgage at 0.5%, for registered mortgage stamping at 3.0%, etc. were required. Therefore, it may be observed that the RRB release the loan up to Rs50,000 within a day or two once the complete application is received but the complete application is required to be simplified so as to make it hassle free. The loan beyond Rs.50,000 is definitely not hassle free as the security in the form of mortgage and EC are time consuming involving several visits to the revenue officials, banks, etc., resulting in loss of man days and consequent high transaction cost for the borrower.

7.16 The study suggested that the add on features on KCC could be further improved in terms of extending other loan such as consumption loan, term loan and evolve the KCC into a truly multipurpose card. Even the various benefits under Government programme, Insurance may be channelised through KCC.

7.17 One of the reasons of farmers not availing the facility of cash credit limit is the transaction cost such as cost of transport, loss of one day wages and also the availability of branch manager (availability of cash in case of cooperative bank) etc. the Branch Manager also discourages number of withdrawal and payment as the banks transaction cost goes up. Use of technology in the form of smart card or hand holding machine may address the problem. Let us imagine a BC be it the PACS itself in each village with a hand holding machine who may carry out the credit delivery job allow withdrawal and deposit function. Some of the models grounded under Financial Inclusion Technology Fund may be adopted for the purpose. Out of four PACS visited during the study, three of them were inclined to adopt new technology in the form of multipurpose smart card in implementation of KCC.

7.18 Electronic card/Smart card may address the challenges of further reducing the transaction cost for bankers/farmers, streamlining the accounting practice, adding the additional features in the KCC, etc. The farmers overwhelmingly preferred a smart card as approaching the banker and the attitude, efficiency etc, coming into play stating from opening an account to withdrawal. However, the issue needs to be assessed as to whether to use electronic card on the lines of low cost ATM designed by IIT, Chennai or to have a BC model with handholding machine. In case of Gram teller, i.e. ATM developed by IIT, Chennai, unlike other ATMs is meant to be a cash dispenser which plugs into a kiosk PC, which acts as tunnel between the dispenser and the bank server thus by passing the switch used by the ATMs. The financial transaction switch is an enterprise server that connects the ATM to information from various sources, which then dispense with the switch, thus reducing the cost of the machine to about Rs.50,000. The server is encrypted and runs on appropriate format developed by IIT, Chennai. Unlike the PIN numbers log-in access facility, Gram teller is equipped with biometric sensor so that once the customer's fingerprints are registered, PINs need not be used. Aimed at the rural market, the low cost ATM makes it more user friendly for people in rural India who are more into finger impression mindset for taking cash. However, it is only a money dispenser and there is no facility for receiving the money. The acceptability by the farmers may also take time. The BC model may be more flexible and practicable mode for accepting deposit and dispensing credit. Alternatively both the models may be piloted at this stage and the same may be introduced as per the suitability of a place.

7.19 The study observed that the effective utilisation of KCC was not possible because of the cumbersome documentation process required to become a KCC holder and thereafter-availing production credit. As already indicated in earlier chapter, the documentation required for a loan up to Rs.50,000 were quite loathsome and costly affair particularly, for small and marginal farmers. A simplified single smart card oriented format may serve the purpose. The emphasis may be on two aspects, one, identification, which may be solved with biometric card with thumb impression and photograph and the other aspect is Survey Number of the land to be cultivated and simple charge thereon by a written declaration. The Patadar Pass Book may be adequate for security purpose. Further, RBI needs to consider revising the limit for security to Rs.1 lakh. For loan beyond Rs.1 lakh the Patadar Pass Book should become the only form of security. The stamp duty for registration of mortgage may be completely done away with.

7.20 Awareness of farmers about KCC, its functioning and its benefit are imperative for the success of the KCC scheme. NABARD may support banks, Farmers Clubs, NGOs and farmers organizations for large-scale training making use of FTTF. The Smart Card project on KCC or low cost ATMs in rural area may be piloted making use of FTTF. The interest subvention scheme may be made applicable to KCC holders only.

7.21 There is a positive impact on the reduction of transaction cost of the farmers as well as bankers by the introduction of KCC. Once the limit is sanctioned for 3 years the farmers escapes the trouble of getting the limit sanctioned every year. That way he saves approximately Rs.1,000 and Rs.2,000 for loan upto Rs.50,000 and beyond Rs. 50,000, respectively. The above cost have been estimated on the basis of feed back received from the farmers (the break up have been indicated earlier). In case of bankers there is no effort on the part of the branch to compute the fall in transaction cost due to introduction of KCC with duration for 3 years. However, the bankers indicate that there is reduction in transaction cost of the bankers as the number of visit by the farmers to the bank is reduced considerably. The banker also need not sanction the limit every year. In case of RRB there is an in built system of 10% increase in the limit every year. Therefore the increase in scale of finance, if any is taken care of in the process.

7.22 The bankers in the many parts of the country are finding it difficult to finance Joint Liability Groups (JLGs) as their insistence on survey Number of the land to be cultivated to avoid duplicate financing is difficult to be complied by the tenant farmers. The landlords are not ready to submit the survey number, as the landlords are apprehensive of the fact that there may be illegal encroachment/ usurpation of property and consequent litigation. The financing of JLGs in the many of the States has not picked up so far. For example, the recent decision taken by the Revenue Department of the Government of Andhra Pradesh to bring in new law vide which the tenant farmer can avail of a loan through a simple no-objection certificate (NOC) from the land owner may address the issue and enable the tenant farmer/JLG to avail the crop loan. Further, there is no empirical evidence of bankers' reaction to the sharing of liability in case of default. However, during the course of our discussions with bankers it was understood that the bankers perceive the financing of JLGs as prone to high risk. They have not given much thought to sharing of liability in case of default by JLGs. Few banks have ventured into financing of JLGs with the pressure from the Government. The study team, however, feels in order to build up the confidence of the bankers to finance the JLGs a risk fund in the form of Credit Guarantee Fund (CGF) created out of MFDEF/FIF may be considered.

7.23 The field study revealed that the bankers have not thought of the issue of building the interest concessions into the KCC. But during our discussions the following procedure was more or less acceptable to some of the bankers. The PACs or the branch of RRB/commercial bank as in case of interest subvention scheme may pass on the interest concessions at the ultimate borrower level. It may be clearly indicated in the KCC be it the existing card or in the form of a smart card. In case of the cooperatives, the amount may be passed on by the SCB to the DCCB and the DCCB to the PACS pending receipt from the GOI. The SCB may be reimbursed once the amount is received from the GOI through NABARD. The interest loss for the interim period may be borne by the SCB and the DCCB as the leader of the cooperative movement in the State. In case RRB, the same procedure may be followed and the RRB or the Commercial bank may bear the interest loss.

7.24 At present though the banks are required to give laminated cards as KCC to farmers, practically none of the banks issue such cards. What are issued in the name of KCC is only a passbook and some banks do not even give such individual passbooks. In order to provide the benefits of emerging technological advancements to the farming community in the rural banking sector and to provide financial services in a cost effective manner, the scope for issuing smart cards to the farmers needs to be explored. Under the Financial Inclusion Project, in some of the states like Andhra Pradesh, such cards are issued to the clientele by roping in technology service providers through BC model. Farmers have to be provided with such cards by leveraging technology and the cards with interoperability should enable the farmers to make and receive payments through various service providers like input dealers, technology support organisations, market yards, etc. so that there is significant reduction in transaction cost as also saves precious time to the farmers. Further, provision of services to the farmers at the doorstep by deploying mobile devices would result in higher volume of transactions though the cards and its frequent usage, which is one of the basic objectives of issue of KCC. We may consider piloting this model in one district and consider up-scaling KCC.

7.25 The analysis in various chapters shows that the KCC scheme has made a significant impact on the availability of short-term credit from formal sources. The amount borrowed from formal financial institutions by all categories of KCC holders taken together has increased by around 70% after the issuance of KCCs. Among various categories of farmers the extent of the increase in availability of short-term credit ranges between 23% for mrginal farmers to 70% for other farmers. With the increase in amount borrowed from formal sources as come down by about 52% in the combined sample after they were given KCCs. The fall in the amount borrowed from informal sources was witnessed for all three categories of KCC holders (tenant, marginal, small and others without any exception. The other major change, which has been witnessed in KCC scheme, is that there is significant drop in number of sample farmers borrowing exclusively from informal sources for meeting their short-term credit needs. The general improvement in access to short term credit is also evident from the qualitative responses of selected bank branches as well as farmers in all the parts of the states. About 94% of sample branches believe that there is an overall improvement in the availability of short-term credit after the introduction of KCCs. Most of the farmers (75%) agreed with what bank branches had to say on access to short term from formal sources.

7.26 In general there has been 12 to 14% decrease in costs of borrowing short-term credit from formal sources after the farmers were given KCCs. The quantum of decrease in costs experienced by various categories of farmers varies from 8% for marginal to 12% of other farmers. The comparison of total costs incurred by this who do not have KCCs and those who have KCCs reveals that overall costs incurred by non-KCC borrowers were 14% higher than the costs incurred by those who have KCCs. This is true for all sample states and for most categories of farmers. In pursuing an equitable balance is very important among various categories of cultivated households were based on size of land holding for social groups or status-quo tenants.

7.27 While there are several policy initiatives, which need to be taken to revitalize rural credit system, in the context of KCCs, however, the policy measures, which emanate from the analysis carried out in the study can be clubbed into following two categories.

(i) Expanding coverage under the KCC scheme.

(ii) Maintaining sustainability and long-term viability of the scheme.

7.28 Expanding coverage under the scheme means that financial institutions have to reach all eligible households, and bring under their fold those households who take loans mainly from informal sources and those rural households who do not borrow. The creased expansion of coverage under the scheme will not only lead to increase in the volume of business, but will also help in reducing transaction costs significantly.

7.29 The analysis also shows that there are several hindrances in the scheme, which have to be handled on a priority basis. These are important for the scheme to establish as a better credit product over the other farms of credit product that had been in existent in the past.

7.30 The responses of KCC holders also suggest that the idea of granting freedom and allowing usage of their cards wherever they feel like (smart card) yet to take-off. One deterrent is restrictions imposed by issuing banks in the name of lack of computerization and the number of transaction that the farmer can make within the prescribed credit limit, the usage of seasonal limits for regulating the flow of credit within stipulated maximum limits and the repayment schedule allowed by the banks.

7.31 For maintaining long-term viability of the scheme, issues associated with maximum credit limits and lending rates are critical. The past experience suggests that high default rates and rate of interest seriously affect the efficiency of financial viability of rural financial institutions. Studies have shown that one of the reasons for defaults has been under financing. Thus the issue of maximum credit limit assumes importance. The study shows that close to 65 per cent of KCC holders were not satisfied with their credit limits, which is true for all categories of farmers. On top of it there are several restrictions on the amount that the farmers can borrow even within their prescribed credit limits. For fixation of seasonal sub-limits the farmers have to intimate banks every time about the crops that they are likely to grow and also give an undertaking about the land leased-in and leased-out in a prescribed format. In all the states, particularly in the case of co-operative banks, farmers reported that the institutions insist on taking part of the loan as kind component, which means that only a part of the total limit is treated as a cash component. All these restrictions limit the freedom of KCC holders to utilize the amount sanctioned under the maximum limit.

7.32 As a consequence of lower limits and various restrictions, the borrowers are forced to meet their balance requirements from informal sources. The analysis also shows that the actual credit limit fixed by the banks do not even meet the cost of cultivation and if other requirements such as opportunity cost of family labour and consumption expenditure (on food, education, health care and social obligations) are included the credit requirements are far above the average credit limits fixed for all categories of farmers in all the states. What this means is that the requirement for short-term credit is much higher than what is being currently made available to them. Obviously, if sufficient credit is not made available to the farmers from formal sources, they will be forced to approach informal sources, because the cost of cultivation cannot be met out of their personal sources of income. The policy implication is that both the criteria that are used to fix credit limits as well as the weights assigned to them are somehow not adequate and do not reflect the reality.

Therefore, it needs to be examined.

7.33 As an alternative among several criteria the two variables, cost of production and consumption expenditure could be employed for credit estimating of requirements because these variables explained about 90 per cent variation in credit requirements. Therefore, the estimation process in fixing the scale of finance being adopted by various banks needs to be reviewed to reflect changes in cropping pattern, technology, inputs use and other miscellaneous expenses.

7.34 To maintain viability of KCC operations the lending rates will have to be fixed in a manner, which provide incentives to the borrowers for borrowing from formal institutions by analyzing the interest rate so as to address long-term sustainability of the scheme. It means rate of interest ultimately matters to the farming households apart from adequacy and availability on time. Though it is true that costs of delivering credit after the introduction of KCCs have certainly fallen. This is obvious from the savings in banks that have occurred at the branch level to process agricultural loans due to decrease in the frequency of applications and improvements in the procedures and costs of delivering short-term credit as reported by bank branches. It would be desirable to have a flexible lending rate for all types of institution because of differentials in their financial health and cost structures but this does not mean that others should be made by the banking system to make their operations more effective so that the overall costs of lending can be brought down.

7.35 This is also evident from the recent experience of advising banks to reduce their lending rate to the agricultural sector at 7 per cent with subvention from Government and Reserve Bank of India. The interest subvention is desirable taking into the higher cost of raising resources and lower margins by various rural financial institution.

7.36 In the end it is important to observe that while streamlining credit delivery mechanisms is necessary, it is not sufficient because there are several improvements that need to be made to make agriculture as a production. Only an efficient and optimum production level of agriculture will be able to sustain long-term viability. Hence there is a need to take appropriate policy measures on long-term viability of various initiatives on facilitating farmers' access to short-term credit in the form of KCC.