

An Economic Analysis of Kisan Credit Cards – offering institutional finance in Karnataka

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Abstract - Availability of agricultural finance plays an important role in the agricultural development of the country and it is sure to act as a catalyst, which could modernize agriculture and spur agricultural growth. In Karnataka, a large number of institutional agencies are involved in the disbursement of credit to agriculture. Some of them are: Co-operative Banks including Primary Agriculture Credit Societies (PACS), District Central Co-operative Banks (DCCB), State Cooperative Banks and Agriculture and Rural Development Banks (ARDBs) – Previously known as Land Development Banks (LDBs), etc. these financial agencies lend money primarily for the purpose of meeting cultivation expenses, which are categorized as ‘Crop Loans’. The Rural Credit Survey (1991) by the Reserve Bank of India (RBI) had brought out that, despite a substantial growth in rural credit, a substantial portion of rural population is not covered by formal credit mechanism. Though banks have tried to extend agricultural credit and reduce the role of money lenders, the credit delivery system has been constrained by traditional systems and procedures and lengthy documentation. Poor collateral efficiency and lengthy legal systems have also played a crucial role in inhibiting agriculture credit. India adopted financial sector reforms in the early 1990s. The country witnessed the deregulation of the banking and financial sector and opening up of banking and financial industry, which has given freedom to banks to plan their business by themselves and price the loans as per market rates. Simultaneously, the changes that have been brought about in the regulatory norms have made the banks take a closer look at the asset quality. As a consequence, credit products for industrial and retail sectors have undergone rapid changes. Simultaneously, the rapid strides in the Information technology and adoption of some of the IT packages in the banking sector have ensured that the new products could be offered more efficiently by banks and accessed more easily by the urban and corporate customers. The IT has not much impacted the rural credit till recently. It is only after 2006, that rural branches of banks have been brought under core banking. The structure of credit outlets has witnessed a significant change and commercial banks have emerged as the major source of institutional credit in recent years.

Agricultural Credit is essential for the development of agriculture in India, as most of the Indian farmers are marginal farmers and are not able to invest huge amount of money for the betterment of agriculture and thus remain marginal throughout their life. In order to solve this problem, NABARD launched Kisan Credit Card scheme 1998-99 with an objective to provide appropriate amount of credit to the farmers. This paper analyses the impact and performance of such Kisan Credit Cards in Karnataka and its role in agricultural development of the country.

Index Terms - Agriculture, Institutional Finance, Loans and Advances, Kisan Credit Cards.

INTRODUCTION

Worldwide India is known as an ‘agrarian economy’. Agriculture not only provides a source of sustenance, but it is way of life, a tradition and will continue to be a prime factor that drives socio-economic development of the country. According to 2011 census, around 53% of working population is engaged in agriculture. Hence agriculture is regarded as the ‘back bone of Indian Economy’. Growth of agriculture is necessary to ensure food security, which is the need of the hour. Apart from ensuring food availability and affordability, it also supports the industrial and service sectors too. Hence concentrating on Agriculture ensures all round development of the economy. In order to sustain the growth in agriculture, credit plays a crucial role. Though, agricultural credit is treated as priority sector by banks and financial institutions, availability and flow of bank credit to agricultural sector is not problem free. There are difficulties in identifying, accessing and dispensing of credit by the banks.

In order to address the problems in purveying credit for agriculture, RBI had set up a one-man high-level committee headed by Sri. R V Gupta in 1997 to suggest measures for improving the delivery systems

as well as simplification of procedures for agricultural credit. The committee had submitted its report in April 1998. As suggested by the committee, Kisan Credit Card scheme was announced in budget speech of then the Finance Minister Mr. Yashwant Sinha of NDA Government, in 1998-99. He further stated that NABARD will prepare a detailed guidelines for the issue of Kisan Credit Card to farmers on the basis of their land holdings. Accordingly NABARD prepared a model scheme for the issue of Kisan Credit Card and submitted to Government of India. After much discussion, the guidelines were finalized and finally communicated to commercial banks, Regional Rural Banks and co-operative banks.

The Kisan Credit Card allows farmers to have cash credit facilities without going through time-consuming bank credit screening processes repeatedly. It is one of the most innovative, widely accepted, highly appreciated banking product. It is beneficial to farmers as it offers hassle free, adequate and timely credit to the farmers for their short-term credit needs during their cultivation for purchase of agricultural inputs such as seeds, fertilizers, pesticides, etc. and also draw cash for their production needs during the cropping season. Repayment can be rescheduled if there is a bad crop season and extensions are offered for up to four years. As per the Tendulkar Committee Report, the national poverty line at 2004-05 prices was a monthly consumption expenditure of Rs. 446.68 in rural and Rs. 579 in Urban areas in 2004-05. The Planning commission has updated the poverty lines and poverty ratios for the year 2009-10 as per the recommendations of Tendulkar Committee using NSSO 66th round (2009-10) data from the household consumer expenditure survey. It has estimated the poverty lines at all India level as a monthly per capita expenditure (MPCE) of Rs. 673 for rural area and Rs. 860 for urban areas in 2009-10. Based on these cut offs, the percentage of people below poverty line is 29.8% in 2009-10. Rural it is 33.8%, whereas Urban it is 20.9%. This represents dismal picture of rural livelihood and agriculture. Since poverty line is defined on the basis of minimum calorie consumption, increasing the consumption level is the way out of poverty.

Hence sustaining agricultural growth is very much important. The stagnation in agricultural productivity, limitation in usage of technology in agriculture, lack of availability of work force,

increasing cost of production, market imperfection, poor infrastructure, non-availability of fertilizers and sowing seeds, high cost of capital, low productivity have made the livelihood of farming population more difficult. Large number of farming households, especially Marginal farmers and small and semi medium farmers makes their living from a mix of subsistence activities like animal husbandry, wage labours, horticulture, plantations, logging etc., These situations have made rural poor farmers condition to go from bad to worse. Hence, sustained agricultural growth is the panacea for rural poverty. If Indian economy wants to achieve the dream growth of double digit, it must concentrate on agricultural growth. Enhanced growth rate in agriculture will not only improve the income and employment levels of farm households but also reduce the level of poverty, address the problem of malnutrition, hunger and promotes food security, rural prosperity and mitigate rural distress and agony. In order to sustain the growth in agriculture, credit plays a crucial role. Adoption of agricultural technology for higher productivity, intensive use of inputs demands availability of easy flow of money to rural peasants. Though, agricultural credit is treated as priority sector by banks and financial institutions, availability and flow of bank credit to agricultural sector is not problem free. There are difficulties in identifying, accessing and dispensing of credit by the banks. Important national programmes of the government such as National Food Security Mission (launched in 2007-08), Accelerated pulses Production Programme, Rashtriya Krishi Vikas Yojana, FASAL, ERFS, National Mission for Sustainable Agriculture (launched in 2011-12) will be ineffective, unless proper credit and backed by much needed financial facility to farmers. This stimulates public and private investment in agriculture and substantial increase in the requirement of production and investment credit. The Public and private investment in agriculture and allied sector have increased 1.5, 1.82 times respectively (at 2004-05 prices) from 2004-05 to 2009-10. But the percentage share of public investment to total investment has decreased, while the percentage share of private investment increased over the years.

KISAN CREDIT CARDS: FEATURES

In order to address the problems in purveying credit for agriculture, RBI had set up a one man high level committee headed by Sri. R V Gupta in 1997 to suggest measures for improving the delivery systems as well as simplification of procedures for agricultural credit. The committee had submitted its report in April 1998. As suggested by the committee, Kisan Credit Card scheme was announced in budget speech of then the Finance Minister Mr. Yashwant Sinha of NDA Government, in 1998-99. He further stated that NABARD will prepare a detailed guidelines for the issue of Kisan Credit Card to farmers on the basis of their land holdings. Accordingly NABARD prepared a model scheme for the issue of Kisan Credit Card and submitted to Government of India. After much discussion, the guidelines were finalized and finally communicated to commercial banks, Regional Rural Banks and co-operative banks. The Kisan Credit Card allows farmers to have cash credit facilities without going through time- consuming bank credit screening processes repeatedly. It is one of the most innovative, widely accepted, highly appreciated banking product. Under this scheme, farmers can withdraw the loan amount in form of cash withdrawals using withdrawal slips and the Kisan credit card-cum-passbook. Kisan Credit Card holders who have a credit limit of Rs. 25,000 can also avail cheque books.

It is beneficial to farmers as it offers hassle free, adequate and timely credit to the farmers for their short-term credit needs during their cultivation for purchase of agricultural inputs such as seeds, fertilizers, pesticides, etc. and also draw cash for their production needs during the cropping season. Repayment can be rescheduled if there is a bad crop season and extensions are offered for up to four years. Kisan Credit Card scheme covers (i) Production credit (ii) working capital requirements for allied activities (iii) ancillary credit requirements related to crop production (iv) contingent needs (v) accidental insurance of Kisan Credit Card borrowers. Crop loans disbursed under Kisan Credit Card scheme for notified crops are covered under National Crop Insurance scheme. The purpose of the scheme is to protect the interest of farmers against crop loss caused by natural calamities, pest attacks etc., The card is valid for three years and subject to annual renewals. Withdrawals are made using slips, cards, and a passbook. All farmers, owner cultivators, tenant cultivators, share croppers and individual farmers

having agreement with institution are eligible for the card. Most banks in India that offer agricultural finance offer the Kisan Credit Card.

CHARACTERISTICS OF KISAN CREDIT CARDS

- In some cases collateral security is to be provided. If the loan amount is above Rs. 100000/-, then the card holder has to pledge his land as mortgage and hypothecate the crops raised on it.
- Farmers who are eligible for the Kisan Credit Card, is offered a passbook or a card-cum-pass book. If a farmer is eligible for a production credit of Rs. 5000 or more, then he/she is eligible for a Kisan Credit Card.
- As per the concerned bank's discretion, sub-limits may be fixed. The facility of revolving credit is available for any amount of withdrawals and repayments made within the credit limit.
- The credit limit is fixed based on the individual's land holdings, scale of finance, annual production credit needs, etc. Based on the annual review, the credit card can be valid up to 3 years. Repayment for the amount borrowed can be made within a period of up to 12 months.
- Credit limits will be increased to take care of change in cropping pattern, increase in costs, etc, as an incentive for good record on credit usage. Operations will be either through PACS in the case of Cooperative Banks or issuing branch in case of other banks, at the sole discretion of the bank. Conversion/rescheduling of loans also permissible in case of damage to crops due to natural calamities. Security, margin, rate of interest, etc, are set as per RBI norms.
- Short term credit limit is fixed for the first year depending upon the crops cultivated as per proposed cropping pattern & scale of finance.
- For every successive years (2nd, 3rd, 4th, and 5th year), the limit will be stepped up @10%. Investment credit requirement of small value in the nature of farm implements/ equipments etc (like sprayer, plough etc.,) and repayable within a period of one year will be included while fixing KCC limit (This portion of the credit will not be included for automatic step up during 2nd year to 5th year but credit requirement for this portion in each year will be reckoned for arriving at the

maximum withdrawal limit for the respective year).

- KCC borrowers shall be issued an ATM cum Debit card, to enable them to withdraw from KCC accounts from ATMs and PoS terminals.
- KCC will be in the nature of revolving account. Credit balance in the account, if any, to fetch interest at Savings bank rate.
- Processing charges waived for KCC limit up to Rs.3 lacs.
- Collateral security is waived for (a) Limit of up to Rs.1 lac (b) Limit up to Rs.3 lacs for loans with tie-up arrangement for recovery.
- KCC accounts should be renewed annually, well before the above due dates, every year to continue the limit during the KCC validity period of 5 years. Branches shall, therefore, ensure to obtain revival letters before expiry of 3 years wherever applicable, as per the Limitation Act.
- For the purpose of renewal, branches should obtain a simple declaration as per the extant guidelines (about crops raised/ proposed to raise) from the borrowers. The assessment of revised MDL requirement of the KCC borrower will be made based on proposed cropping pattern and area declared by him.
- National Crop Insurance scheme is offered to the Kisan Credit Card holders, which provides coverage for crop loans given under the KCC scheme for certain crops.

REPAYMENT FOR SHORT TERM CROPS

- Kharif (mono): (1st April to 30th September) - 31st Jan
- Rabi crop (mono): (1st October to 31st March) - 31st July
- Double /Multiple Crops: (Kharif & Rabi seasons) - 31st July

Repayment for Long term Crops:

(All round the year) - 12 months (from the date of first disbursement). Borrowers are required to route their farm proceeds or other credits into the KCC account, with a minimum of loan amount plus interest and other charges, if any, within the repayment due date.

Interest rates:

Kisan Credit Card interest rates as well as credit limit varies from bank to bank. Generally, the applicable interest rate per annum for Kisan Credit Cards is 9 percent for a credit limit of maximum Rs.3 lakh. Central Government allows certain subsidies on interest rate applicable by the financing institutions, provided that the card holder's credit history is good. The additional interest subsidy provided is percent and if the customer has a soundtrack record for three years, he/she is eligible for an increase in the credit limit. Other charges and fees involved in taking credit under this scheme are: insurance premium, processing fees, passport photo charges. Charges on land mortgage deed, etc.

Statement of the Problem:

Institutional finance plays an important role in development of agriculture. Financing for agriculture has been a huge task for banks, given the enormity of the credit requirements on one hand and vagaries of nature on the other. However, the traditional system of procedures, documentation etc. adopted by the banking system had rendered an ailment of credit by the farmers rather cumbersome. Provision of timely, adequate and hassle-free credit to farmers is one of the major tasks for banks in Karnataka. Kisan Credit Cards are the life savior, which offers instantaneous credit facility to the farmers. But there are certain problems in KCC scheme. This study was undertaken to explore the possibilities of rectifying the limitations of KCC scheme.

OBJECTIVES OF THE STUDY

1. To understand the importance of Kisan Credit Card scheme in Karnataka.
2. To identify the important features of Kisan Credit card and repayment schemes associated.
3. To explore the various limitations of Kisan Credit card systems in Karnataka.
4. To offer suggestions to overcome those limitations and to make the system stronger.

FINDINGS

It has been found from the study that agriculture has long-run stable relationship with economic development. It has been also found from the study

that institutional finance has made significant impact on agricultural development. Scheduled commercial banks, regional rural banks co-operative banks have played vital role in implementation of KCC scheme. KCC farmers have been benefited from KCC scheme. However, farmers have not been well aware about the scheme and its benefits. Therefore, there is a need of providing awareness about the utilities of KCC scheme and also extend the KCC Scheme to all farmers. In this direction, the present study has made humble and sincere effort to address the research issues and objectives designed for the present study with appropriate methodology and suitable research techniques. Most of respondents are agricultural farmers and have been living in their own houses. In the field study area, relatively more numbers of KCC respondents have been living in semi-pucca and more numbers of non-KCC respondents have been living in Katcha houses. Accordingly, more numbers of KCC respondents have been living in good houses. Majority of the KCC respondents have been using gas for cooking and more number of non-KCC respondents have been using firewood or cow dung for cooking. Accordingly, KCC respondents have been using improved source of energy for cooking. There was no significant difference in availability of un-irrigated land between KCC and Non-KCC holders. However, there was huge significant difference in availability of un-irrigated land between Villages. Farmers have asked for zero interest loans. The reasons given for the consideration of zero interest were high cost of inputs, low agricultural price, third party determination of price and agriculture could have been the single source of income. Having said these reasons farmers, particularly, KCC holders have suggested for zero interest loans.

SUGGESTIONS

- In order to improve the linkages between agriculture and economy there is a need of capital investment in the agricultural sector.
- Agriculture finance needs to be continued and extended to all farmers according to their needs. In this process, there is need for effective implementation of KCC.
- It is found that the economically backward and socially disadvantaged people are highly dependent on the non-institutional sources.

Therefore, KCC scheme should give first preference to these people.

- It has been observed from the field study that a majority of the farmers opinioned that the loan provided under KCC was not sufficient in both the sample villages. Therefore, they have taken loan from non-institutional sources.
- It has found that some proportions of KCC beneficiaries are spending more on socio religious and domestic expenditure. Hence, this type of misutilisation should be controlled by the banking authority. Bank officials need to visit field at least twice or thrice in a crop period so that credit is not diverted to consumption purposes.
- It has been observed that the KCC holders opinioned that they need training to proper use of KCC. Therefore, banks should provide proper training to beneficiaries through conducting the workshop.
- It has been found from the present study that the majority of the farmers have fallen into debt due to KCC credit spent on chemical fertilizer, pesticides and HYV seeds. Therefore, government has to provide information about the organic farming through the agricultural department.

CONCLUSION

Kisan Credit Card scheme plays an important role in the development of agriculture and peasant community. The KCC scheme basically aims at providing adequate and timely credit support to the farmers for agricultural operations including purchase of inputs. It has been observed from the present study that KCC scheme has made positive impact on the socio-economic status of the farmers. It has been found that the proportion of household assets, agricultural assets, consumption status, income status, production and productivity of KCC holders was found to be quite significant as compared to that of non-KCC holders in the study areas as a whole. However, KCC scheme has several limitations. Therefore, if those limitations are fixed, it will surely uplift the lives of farmers.

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