

An Economic analysis of banking system supporting Indian Agriculture: A case of Kisan Credit Cards

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Abstract - Indian census report, 2011, states that, around 53% of working population are 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 guideline 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 scheme aimed at adequate and timely financial support in a flexible and cost-effective manner from the banking system to the farmers for their cultivation needs including purchase of inputs. The scheme was circulated to banks by RBI/NABARD. As at the end of December 2000 about 1 crore KCCs have been issued surpassing the target of 75 lakh fixed in the budget for the year 2000-01. This paper attempts to analyse the magnitude and impact of Kisan Credit cards in India.

Index Terms - Agriculture credit, Finance, Banking system, Thrift, NABARD, Productivity.

INTRODUCTION

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. The stagnation in agricultural productivity, limitation of usage of technology in agriculture, lack of availability 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.

REVIEW OF LITERATURE

Mehta et al. (2016) analysed the role of kisan credit card scheme in the rural India. The primary motive of the study was to analyse the role of Kisan credit card scheme and provide suggestions thereof. It was observed that Kisan credit card was very effective popular tool of rural credit to finance the requirements of farmers in judicious manner. It was suggested that banks must make the process easy so that the farmers in poor performing zones can also get benefit from the scheme as well.

Gandhimathi and Sumaiya (2015) evaluated the role of kisan credit card system in the distribution of agricultural credit in the country. It was found that among the selected variables, rural branches of commercial banks, aggregate deposits, agriculture production, borrowing of commercial banks from Reserve Bank of India and the introduction of KCC scheme were significant to determine financial inclusion. Further, it was observed that the regression analysis and logic analysis proved that KCC improved the financial inclusion in the agriculture sector.

Maurya (2015) studied the role of co-operative banks in agriculture in district Mohali (Punjab) with the purpose to assess the impact of agriculture credit provided by co-operative banks in the study area. Further, it also studied the attitude of borrowers and lending agents towards farmers and assessed the impact of credit on assets, level of income, employment, savings etc. The study was based on

primary sample survey conducted on 120 beneficiary farmers. The parameters used were utilization of land, amount of irrigation, cropping strength, output model, cultural practices, input arrangement, farm incomes, employment model, saving guide. It was found that almost all the parameters under the study had significant impact on co-operative banks lending in one way or the other. But banks failed to go long way to fulfill the credit requirements of the rural farmers. Further, it was also found that there was increase and decrease in the rural farm credit by institutional and non-institutional agencies during the last five decades but the lending institutions faced many problems such as over dues and defaults. It was recommended that instead of giving cheaper credit, banks should also try to inculcate saving habit and monitoring arrangements and controls should be tightened.

Bindage et al. (2014) studied the economic impact of kisan credit card scheme for sugarcane crop in Kohlapur (Maharashtra). The main objective of the paper was to review the development in the number of Kisan credit card consumers and examine the rate and adequacy of loan under the scheme as compared to loan without KCC. For the purpose of primary survey, data has been collected from 60 KCC users and 60 non KCC beneficiaries selected randomly. The study has been conducted for the year 2010-11. The pre-tested and structured schedule has been used to collect information regarding borrowings, repayment, interest and cost of borrowing etc. Growth rate and tabular analyses had been employed in order to study the growth of KCC users and compare cost and adequacy of credit covered with KCC and those not covered with KCC. It was found that KCC users grew over the study period but it faced a slowdown in last few years of the study. The cost of credit was higher for credit not covered with KCC scheme. Further, the credit was found to be inadequate in both cases credit under KCC scheme and credit not covered with KCC. It was recommended that the banks should make efforts to encourage and educate the farmers about the benefits of KCC scheme as well as maximize their reach to cover all the farmers.

Shinde (2013) studied the impact of Kisan credit card scheme on farm economy and factors influencing adoption of scheme and constraints faced by the farmers. The secondary data was used and analyzed by using percentages and averages. The statistical tool of Cobb Douglas production function was used in order

to assess the resource use efficiency. The factors which were influencing the adoption of Kisan credit card scheme were found by using a binary logit model and the Garrett's ranking technique was used to rank the problems faced by the users. It was found that kisan credit card was popular product among farmers with great interstate variation in numbers and social economic factor was affecting the holding of Kisan credit card. It was suggested to train the borrowers regarding the procedure of obtaining Kisan credit card scheme to get more positive impact.

OBJECTIVES OF THE STUDY

The study attempts to understand

1. The introduction and the growth of Kisan Credit cards in India.
2. The performance of Kisan credit cards in reducing rural poverty and the role of RRB's.
3. To suggest measure to improve the effectiveness of Kisan Credit cards.

RESEARCH METHODOLOGY

For the purpose of the study, the period-wise and agency-wise progress has been studied. The data has been taken for the financial years of 1998-99 to 2012-13. The data has been accumulated from various reports of NABARD and publications of Reserve Bank of India. The agency-wise analysis has been done for commercial banks, regional rural banks and co-operative banks providing Kisan credit card scheme during the period.

Agency-wise Progress of Kisan Credit Card Scheme
The Kisan credit card scheme has been carried out by all the commercial banks, regional rural banks and co-operative banks throughout the country. The position of progress made by these agencies in regard to Kisan credit card scheme in terms of number of cards issued for the year 1998-99 to 2012-13 is presented in Table.

Agency-wise Progress of Kisan Credit Card Scheme in India

| Year | No. of Kisan credit card Issued (In lakh) | | | | | | |
|---------|---|-------------------------|-------|-------------------------|--------------------|-------------------------|--------|
| | Commercial Banks | Proportion in total (%) | RRBs | Proportion in total (%) | Co-operative Banks | Proportion in total (%) | Total |
| 1998-99 | 6.22 | 79.34 | 0.06 | 0.77 | 1.55 | 19.77 | 7.84 |
| 1999-00 | 13.66 | 26.61 | 1.73 | 3.37 | 35.95 | 70.02 | 51.34 |
| 2000-01 | 23.90 | 27.62 | 6.48 | 7.49 | 56.14 | 64.89 | 86.52 |
| 2001-02 | 30.71 | 32.88 | 8.34 | 8.93 | 54.36 | 58.20 | 93.41 |
| 2002-03 | 27 | 32.76 | 9.64 | 11.69 | 45.79 | 55.55 | 82.43 |
| 2003-04 | 30.94 | 33.46 | 12.73 | 13.77 | 48.78 | 52.75 | 92.47 |
| 2004-05 | 43.96 | 45.41 | 17.29 | 17.86 | 35.56 | 36.74 | 96.80 |
| 2005-06 | 41.65 | 51.98 | 12.49 | 15.59 | 25.98 | 32.43 | 80.12 |
| 2006-07 | 48.08 | 56.49 | 14.09 | 16.56 | 22.98 | 27 | 85.11 |
| 2007-08 | 46.06 | 54.38 | 17.73 | 20.93 | 20.91 | 24.69 | 84.70 |
| 2008-09 | 58.34 | 67.90 | 14.14 | 16.46 | 13.44 | 15.64 | 85.92 |
| 2009-10 | 53.13 | 59 | 19.49 | 21.64 | 17.43 | 19.36 | 90.05 |
| 2010-11 | 55.83 | 54.90 | 17.74 | 17.45 | 28.12 | 27.65 | 101.69 |
| 2011-12 | 68.04 | 57.86 | 19.95 | 16.96 | 29.61 | 25.18 | 117.60 |
| 2012-13 | 82.43 | 63.5 | 20.48 | 15.78 | 26.91 | 20.73 | 129.82 |

As it is observed, during the period 1998-99 to 2012-13, the mean value of number of cards issued under Kisan credit card scheme in India was the highest in commercial banks (42 lakh) followed by co-operative banks (35.96 lakh) and RRBs (12.73 lakh). The growth rate of number of Kisan credit cards issued was found

the highest in RRBs (22.84%) followed by commercial banks (14.27%), while the co-operative banks showed a negative growth rate (-2.67%). The number of cards issued by the commercial banks was 6.22 lakh in the year 1998-99 which increased to 82.43 lakh in the year 2012-13. The proportion of

commercial banks in total number of cards issued decreased from 79.34 per cent in the year 1998-99 to 63.50 per cent in the year 2012-13. The number of cards issued by RRBs was 0.06 lakh in the year 1998-99 which increased to 20.48 lakh in the year 2012-13. The proportion of regional rural banks increased from 0.77 per cent in the year 1998-99 to 15.78 per cent in the year 2012-13. The number of cards issued by co-operative banks was 1.55 lakh in the year 1998-99 which increased to 26.91 lakh in the year 2012-13. The proportion of co-operative banks in total number of cards issued increased from 19.77 per cent in the year 1998-99 to 20.73 per cent in the year 2012-13. The variation was the highest in RRBs (52.47) followed by commercial banks (48.62) and co-operative banks (36.10) during the period of study.

PRESENT SITUATION

Currently 6.88 crore active KCCs against 14.5 crore operational land holdings. Farmers engaged in allied activities of Animal Husbandry and Fisheries now included in KCC.

- Action already initiated to address the Gap of 7.62 crore in KCC
- Indian Bank's Association (IBA) waived off processing fee, inspection, ledger folio charges and other service charges for fresh/renewal of KCC
- RBI raised collateral free loan limit to Rs 1.60 lakh
- Saturation Drive initiated to provide KCC to all eligible farmers – maximum timeline of 14 days for issue of KCC
- Regular VCs being held by GoI with Chief Secretaries of State Govts and other officials
- Monitoring of banks through joint meetings of Secretary (DAC&FW) and Secretary (DFS)
- District Collector to monitor the implementation of activities during saturation drive camps in districts
- SLBC to organise joint meetings of banks and State Govts - finalise strategy for KCC saturation drive
- District Level Bankers Committee (DLBC) to identify districts with maximum gaps and fix targets

- DLBC to organise bank-wise/village-wise camps to collect forms of eligible farmers in districts with gaps
- State machinery (revenue dept) to facilitate completion of new application forms with the required documents

Some of the suggestions for its improvements are:

1. The Credit limit should be fixed by taking the average of high value crop and low value crops.
2. To effectively bridge the gap between, demand and supply of credit, i.e., credit gap, KCC should cover even noncredit requirements of the farmers.
3. Financial literacy relating to repayment discipline should also be imparted by the agencies to the existing and prospective borrowers of KCC in order to deal with the problem of mis utilization of credit.
4. Flexibility to withdraw cash from any bank should be given to the card holder.
5. Some of the vulnerable groups like tenant farmers, sharecroppers, defaulter farmers, agricultural labourers must be brought under the umbrella of KCC.
6. Credit delivery system to be more transparent and farmers friendly.

CONCLUSION

Thus, the kisan credit card scheme has shown growth during the period of study in terms of number of cards issued and amount sanctioned under the scheme. As far as agency-wise progress of Kisan credit card scheme is concerned in terms of number of cards issued and amount sanctioned, the commercial banks were ahead of co-operative banks and RRBs during the period of study.

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