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ROLE OF KISAN CREDIT CARDS IN PROMOTING AGRICULTURE

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INTRODUCTION

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 2/3rd 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. 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.

Kisan credit cards 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

Under this 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. 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.

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

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

MULTI-PRODUCT AND MULTI-AGENCY APPROACH

The Agricultural Credit Delivery System (ACDS), as it shaped up during 1970s and 80s was characterized, by multi-product and multi-agency approach (MPMAA). 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.

KISAN CREDIT CARDS

Recognizing the limitations of multi-credit product and multiagency 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) 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. 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. 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.

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 agencies of NABARD.

THE OBJECTIVES

As a pioneering credit delivery innovation, Kisan Credit Card Scheme aims at providing adequate and timely credit support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible, hassle free and cost effective manner.

ADVANTAGES OF THE KCC SCHEME

- Minimum paper work and simplification of documentation for drawal of funds from the bank.
- Access to adequate and timely credit to farmer.
- Assured availability of credit for 3 years and avoidance of uncertainty involved in accessing credit on a year to year basis. Annual review of limit and provision for enhancement subject to satisfactory operations.
- Flexibility in use of credit and saving in interest burden.
- Flexibility of drawing cash from a branch other than the issuing branch at the discretion of the bank.
- Availability of the life cover/ disability insurance at very low premium in case the farmer meets with accident.

IMPLEMENTATION OF KISAN CREDIT CARD SCHEME

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

- 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 draws 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.

CREDIT LIMIT

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

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.

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

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. 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

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.

TYPES OF KISAN CREDIT CARDS ISSUED

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

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.

DRAWAL FACILITIES

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 Cooperative 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. 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.

REPAYMENTS AND NPA NORMS UNDER KCC

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 in case 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.

COVERAGE OF KCC UNDER PAIS AND NAIS

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.

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 performance of climatic change.

SERVICE CHARGES

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

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.

CONCLUSION

Kisan credit cards 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. 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 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. 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.