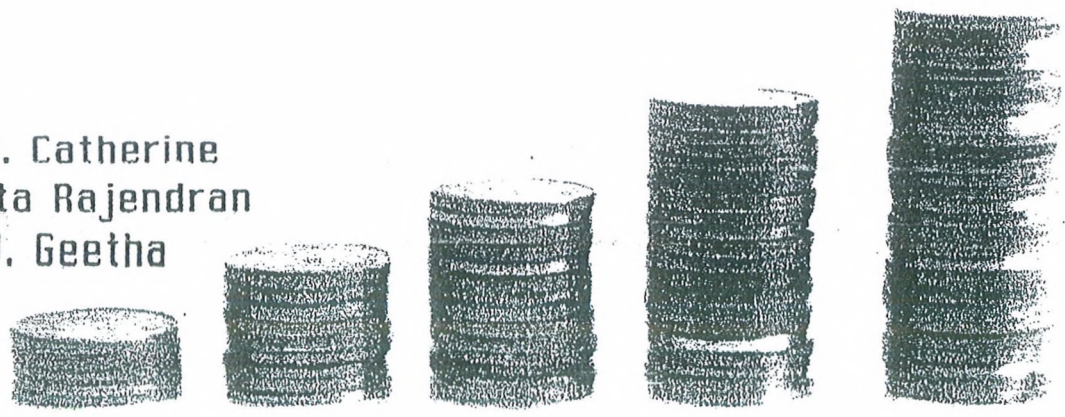


Inclusive Growth in India

An Emphasis on Financial and Social Inclusion

7-8 October, 2010

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Impact of Kisan Credit Card System on Financial Inclusion in India

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Introduction

Financial Inclusion is an important business strategy for economic growth. It implies that either two excluded people- either as individual or as group now have access to credit on regular basis. The Rangarajan Committee (2008) has defined financial inclusion as "the process of ensuring access to financial services by vulnerable groups such as weaker sections and low income groups at an affordable cost.

Financial inclusion is of great significance to the farmers since enhanced financial inclusion will reduce the farmer's indebtedness, and ensures better risk management tools for the farmers. Financial inclusion becomes more important, particularly in the context of doubling the agricultural productivity, targeted for India's 11th Five Year Plan. However, in India, 51.4 per cent of farmer households are financially excluded from both formal and informals

The Reserve Bank of India report on "Trend and Progress of Banking in India 2007" clearly admits that the progress of microfinance movement in the country has been skewed and the record of financial inclusion has not been up to the mark. Consequently, the RBI has moved to enforce multiple policy changes. To achieve financial inclusion it is essential to extend banking facilities in non-banked areas and to extend innovative and affordable micro finance services for those who lack access to financial services.

The instrument of Kisan Credit Card (KCC) is one of the key products developed to improve the farmer's accessibility to bank credit, simplify credit delivery mechanism and provide more flexibility in the use of credit. Model scheme of KCC formulated by NABARD in 1998-99 is being implemented in all the states and union territories. As a pioneering credit delivery innovation, Kisan Credit Card Scheme aims at provision of adequate and timely 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. The scheme has been implemented by 27 commercial banks, 378 cooperative banks and 196 regional rural banks throughout the country. The KCC scheme has made a rapid progress since its inception and till 31st October 2006, 64.5 million KCCs were issued by cooperative banks, commercial banks and regional rural banks. (Anjani Kumar et, al.,2007).

Under the Kisan Credit Card (KCC) scheme eligible farmers to be provided with a Kisan credit card and a pass book or card - cum-pass book and revolving cash credit facility is provided involving any number of draws and repayments within the limit. However, limit to be fixed on the basis of operational land holding, cropping pattern and scale of finance.

Kisan credit card scheme is beneficial to farmers since it provides access to adequate and timely credit, fully year's requirement of the borrower is taken care of, minimum paper work and simplification of documentation for withdrawal of funds from the bank of flexibility to draw cash and buy inputs and assured availability of credit at any time enabling reduced interest burden for the farmer. In this context The current study on "Impact of Kisan credit card system on financial inclusion in India" was undertaken with the following objectives.

To find out the amount of credit availed by marginal, small, medium and large farmers before introduction of KCC

To find out the extent of inequality in credit availed by marginal, small, medium and large farmers.

Methodology

The study was based on the data relating to credit availed by different group of farmers from 1980-2007. The data were compiled from the hand book Indian Economy Reserve Bank of India, 2008. The study calculated compound growth rate of credit availed by using the following formula.

$$Y = ab^t$$

The study tries to estimate Theils inequality index by using the following formula,

$$Y = \log(n) - y * \log(1/y)$$

Findings of the study

Trends in credit availed through KCC by marginal, small, medium and large farmers.

It shows the provision of agricultural advances to various categories of farmers by the scheduled commercial banks in India.

TABLE 1: TRENDS IN THE PROVISION OF AGRICULTURAL ADVANCES TO VARIOUS CATEGORIES OF FARMERS BY SCHEDULED COMMERCIAL BANKS

Year	(Number of accounts in thousands; Amount in Rupees Crore)							
	Marginal farmers		Small farmers		Medium and large farmers		Total	
	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount
1980-81	3017	477	1645	396	1931	1454	6593	2326
1981-82	3202	611	1821	511	2119	1720	7142	2842
1982-83	3573	762	2147	688	2504	1963	8324	3193
1983-84	4029	948	2564	911	2414	2444	9007	4302
1984-85	4397	1158	3001	1158	2649	2941	10046	5258
1985-86	5104	1526	3557	1483	3135	3678	11796	6687
1986-87	5227	1682	3707	1683	3116	4023	12050	7388
1987-88	5871	2015	4190	2044	3542	5029	13603	9088
1988-89	6073	2324	4354	2312	3593	5460	14020	10096
1989-90	6082	2727	4351	2673	3706	6494	14140	11894
1990-91	6137	2895	4346	2870	3563	6624	14045	12389
1991-92	6063	3239	4439	3050	3669	7058	14170	13346
1992-93	6057	3437	4460	3328	3878	7444	14395	14210
1993-94	6007	3595	4282	3411	3637	7902	13926	14908
1994-95	5463	3889	4047	3659	3492	8359	13002	15906
1995-96	5557	4326	4255	4295	3461	9265	13273	17885
1996-97	5296	4894	4219	5033	3575	10469	13090	20396
1997-98	4890	5058	4034	5442	3354	11752	12278	22252
1998-99	4408	5511	3711	5680	3389	12651	11507	23842
1999-00	4544	6185	3777	6445	3379	14719	11700	27349
2000-01	4600	7215	3689	7308	3555	16963	11844	31486
2001-02	4902	8759	3961	9686	3394	19083	12257	37529
2002-03	4749	9813	4092	11316	3835	23831	12676	44961
2003-04	6086	14805	4806	13974	4377	28786	15268	57565
2004-05	7299	20499	5874	20759	5274	37218	18447	78476
2005-06	8239	29719	6677	29255	6321	52769	21237	111743
2006-07	9954	37336	7548	37815	6985	64810	24487	139961

Source: Compiled from the hand book of Indian Economy, Reserve Bank of India, 2008

In the period of pre Kisan credit card scheme, both the number of agriculture loan accounts and the amount of loan disbursement had increased for the marginal farmers. The number of agricultural loan accounts had increased from 3017 in 1980-1981 to 5296 in 1996-1997. The amount of agricultural loan disbursement had also increased Rs. from 477 crores in 1980-1981 to Rs.4894 crores in 1996-1997. In case of small and large farmers also, both the number of accounts and the amount of loan disbursement

had increased in the period of pre Kisan credit card system. In the period of post Kisan credit card system also, the number of accounts and amount of loan distribution had shown an increasing trend. Table 1 and 2 represent the trends in amount of credit availed by small, medium and large farmers before and after introducing KCCs. To find out the impact of Kisan credit card system in the growth of agricultural credit among different categories of farmers, the compound growth rate was estimated. The results of the compound growth rate are shown in the table 3.

TABLE 3: COMPOUND GROWTH RATE OF AGRICULTURAL CREDIT BY DIFFERENT GROUPS OF FARMERS BEFORE AND AFTER USING KISAN CREDIT CARD

Farmer Category	CGR Pre KCC	CGR Post KCC	T value Pre KCC	T value Post KCC	R ²	R ²
Marginal	-5.0	-16.7	109.705**	60.418	0.680	0.939
Small	-5.7	-4.2	89.502	112.420	0.649	0.603
Medium and Large	-3.2	-14.2	121.826	82.004	0.513	0.951

The above table 3 shows that there was negative growth of agricultural credit distribution among different categories of farmers in both before and after the period of Kisan credit card system. Before the Kisan credit card had been issued, the highest negative compound growth rate of agricultural credit was observed for the medium farmers (-5.7 percent) and for the large farmers, it was only -3.2 percent. After the Kisan credit card had been issued, the compound growth rate of agricultural credit outstanding was 16.7 percent for the marginal and small farmers. It was the highest percentage when compared with other categories of farmers. To conclude, through the issue of Kisan credit card system had considerably increased the credit accessibility of small and marginal farmers it did not control the negative growth of agricultural credit distribution of among various categories of farmers. The negative growth was due to the new economic reforms which hindered the growth of agricultural sector in India. It shows that the financial inclusion had been achieved through Kisan credit card system but it was not able to achieve the agricultural sector development considerably. It reveals that after the Kisan credit card had been issued, the negative compound growth rate had been widened for the marginal and large farmers

Analysis of inequality in the amount of credit availed through KCCs.

To identify the impact of Kisan credit card system on the financial inclusion in the agricultural sector the Theils inequality index was estimated. The results of the Theils inequality are shown in table 4

TABLE 4: THEILS INEQUALITY INDEX

Pre KCC period	Theils Inequality Index	Post KCC period	Theils Inequality Index
1980-81	0.0037	1998-99	0.0580
1981-82	0.1017	1999-00	0.0618
1982-83	0.0849	2000-01	0.0619
1983-84	0.0771	2001-02	0.0488
1984-85	0.0724	2002-03	0.0603
1985-86	0.0677	2003-04	0.0441
1986-87	0.0649	2004-05	0.0498
1987-88	0.0694	2005-06	0.0320
1988-89	0.0629	2006-07	0.0284
1989-90	0.0656		
1990-91	0.0599		
1991-92	0.0575		
1992-93	0.0548		
1993-94	0.0580		
1994-95	0.0559		
1995-96	0.0519		
1996-97	0.0498		
1997-98	0.0574		

The results shows that the inequality index associated with distribution of agricultural credit had been fluctuating and reached 0.0580 in 1998-1999. After the Kisan credit card had been issued, the inequality index had declined from 0.0618 to 0.0284 in 2006-07. The above facts indicated that the issue of Kisan credit card system had considerably increased the credit accessibility of small and marginal farmers and hence, the financial inclusion in the agricultural sector had been achieved through Kisan credit card system.

Policy Implications

The Kisan credit card system should be fully extended to the small and marginal farmers which would improve the credit accessibility of them.

There is a time gap between the credit demand and the availability. Hence, the procedural delays should be reduced by the disbursement of agricultural credit.

The marginal and small farmers should be aware about the existence of the Kisan credit card system. Hence, proper extension services should be given to these groups of farmers.

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