CHAPTER – IV

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.

4.1 Kisan Credit card Scheme – Major features

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.

4.2 Rashtriya Krishi Bima Yojana

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 percent subsidy in premium allowed to Small and Marginal Farmers, to be shared equally by the Government of India and State Government/ Union Territory.

4.3 Personal Accident Insurance Scheme

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.

### 4.4 Monitoring and Review

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.

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.
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 for a 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.

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.

4.5 Implementation Aspects of the KCC Scheme

4.5.1 Introduction of the KCC Scheme

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.

### 4.5.2 Eligibility Norms

As almost one decade has been passed since the introduction of the KCC scheme, several changes have 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.

4.5.3 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.

4.5.4 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.

4.5.5 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.

4.5.6 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.
4.6 Credit Limit for working capital for agriculture and allied activities and NFS

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 percent over and above the limit sanctioned under crop loan.

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

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. 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 percent 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.
4.8 Types of KCCs 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).

4.9 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 sometimes 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.

The documentation 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 percent 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.
4.10 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 Cheque book 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 cheque books as almost all farmers withdrew the limit in one go. However, if any farmer insists branch was inclined to issue cheque books.
4.11 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. 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 percent 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.

The study observed that the NPA norms as applied by the Cooperative banks and the commercial bank branches were on the lines as prescribed by RBI from time to time.
4.12 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 percent is collected for farmers with land holding up to 1 ha and @ 4.3 percent 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.

4.13 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. 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.

4.14 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 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.

4.15 Small & Marginal Farmers – Coverage

It was observed that some of the banks had stipulated minimum land holding criteria for issue of Kisan card. As a result, the small and marginal
farmers were finding it difficult to obtain the Kisan card. Although the banks had covered a good number of new farmers under Kisan card, as understood from the sample data from different states, the performance of commercial bank in this regard could be improved. Study team was not able to get the national picture of coverage of small and marginal farmers under the Kisan card scheme due to non-availability of the data from some banks. Recently NABARD and RBI have written to banks to maintain the data on Kisan cards issued to small and marginal farmer. However, the response of banks in this regard has not been very encouraging. Further the monitoring of the coverage of small and marginal farmers under the scheme at State Level Bankers’ Committee (SLBC) need to be taken more seriously. State governments can play an active role at the level of SLBC, as learnt from the experience that wherever State governments took interest in implementation of the scheme, the performance of the banks, particularly in respect of cooperatives, was better.

Out of the total farmers in the country, assuming that 50 percent of them borrow from banks, only 20 percent had been issued Kisan credit card by the end of December 2010. This implies that banks may have to gear up their system substantially, if they have to meet the goal of covering all the farmers under Kisan card within 3 years starting from April 2010 as
announced by the Finance Minister in the budget speech for the year 2009-10.

NABARD has been monitoring the performance of cooperative banks in implementation of the Kisan credit card scheme. A system of fixing a target of issuing Kisan credit cards in cooperative banks and CBs appears to have worked well. NABARD has been analysing the performance of these banks in relation to the target and advising timely and corrective measures. However in case of commercial banks there was no such system due to certain operational difficulties. RBI may like to introduce a similar system of fixation of certain target for each of the commercial banks in consultation with them. While recommending this certainly the intention is not to impose certain unwanted targets on banks but to help them to fix a goal for themselves against which they could evaluate their own performance so that corrective steps can be taken timely. Besides this, it would also help them in planning their business strategy for financing agriculture in rural areas.

4.16 Adequacy of Credit

Although about two third of the farmers had expressed satisfaction over the adequacy of credit sanctioned under Kisan credit card by the banks, the position in respect of the co-operative banks had not been that satisfactory. Co-operative banks have implemented the Kisan credit card scheme with all
the enthusiasm. Their coverage of small and marginal farmer had also been quite good. However, the credit provided by the co-operative banks to their clients under Kisan credit card had not been adequate as reported by their clients covered under the study. There had been many factors responsible for this. Most of the cooperative banks were having an upper ceiling on crop loans to an individual i.e. Individual Maximum Borrowing Power (IMBP). As a result the farmers with bigger land holding did not get sufficient credit to meet their entire needs and they were compelled to approach other agencies to bridge the gap. Secondly, many 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. In many districts the DLTC had not revised the scales of finance for crops for long. Cooperative banks were strictly following the scales of finance even if they were quite old. Thus there is a need to pursue the members of the DLTC to hold the meetings regularly or it may be suggested that system of DLTC may be done away with and the banks may adopt their own norms depending on the agricultural practices prevailing in their respective areas of operation.

Further as has been mentioned, though KCC also envisaged meeting the short term credit need of the farmers for purposes other than raising the crops, most of the cooperative banks had not been providing for it while sanctioning the credit limit to farmers under Kisan card. Perhaps this could be
due to the fact that NABARD refinance for seasonal agricultural operations only covers the loans to crops and other portion has to be met out of their own resources by the cooperative banks. The weak resource position of many cooperative banks did not permit this. This is a policy issue deserving consideration by NABARD as also by RBI. It may be possible for NABARD to provide refinance against non-crop components also, if RBI sanctions additional credit limit to cover the other short term needs to NABARD, while sanctioning credit line for seasonal agricultural operations.

Some of the deficiencies observed during the study have highlighted that despite instructions from RBI/NABARD on removal of floor limit, some of the banks were restricting the issue of Kisan credit card to certain amount. On account of this lowest rung of cultivators were deprived of the Kisan credit card facility.

While liberalisation and simplification of the procedures to ensure easy and quick access to bank credit through Kisan credit card have led to certain advantages, on the other hand many farmers were misutilising the flexibility given to them. It had come to notice that some farmers were showing maximum acreage under crops having the highest scale of finance to get the benefit of more credit whereas the actual cropping pattern was something different.
4.17 Stamp Duty

While the progress of the Kisan credit card scheme had been satisfactory throughout the country, there had been certain hurdles which blocked the progress of the scheme. The average amount sanctioned under Kisan credit card by all the agencies has been relatively low.

Table 4.1

Average Amount Sanctioned

(Amount in Rs)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Average Amount Per Kisan card</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Bank</td>
<td>26151</td>
</tr>
<tr>
<td>Other Banks</td>
<td>23385</td>
</tr>
<tr>
<td>Co-operative Banks</td>
<td>17281</td>
</tr>
</tbody>
</table>

Source: Primary Data

One of the factors responsible for lower limits was the high stamp duty charged on higher loan amounts. For instance in case of U.P., it was Rs.70 per Rs.1000 of loan if the loan amount exceeded Rs.1.0 lakh. Similarly in case of Haryana exemption limit from stamp duty was Rs.60000 only. More or less the same position was there in Punjab. However, surprisingly in contrast the stamp duty for a loan of like amount for tractor, which was also loan for agricultural purpose like the loan under Kisan credit card, the cost was about Rs.200. A comparison of cost for a term loan of Rs.2,00,000/- for a tractor and a limit of Rs.2,00,000/- under KCC in the state of U.P. has been shown in Table 4.2.
Table 4.2
Comparative Analysis of cost of availing a limit of Rs.2,00,000 under KCC scheme or crop loan and a term loan of Rs.2,00,000 for purchase of a tractor:

(Amount in Rs.)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Item of expenditure</th>
<th>KCC limit Rs.2,00,000/-</th>
<th>Term loan of Rs.2,00,000 for a tractor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Land records details from Lekhpal</td>
<td>10.00</td>
<td>10.00</td>
</tr>
<tr>
<td>2.</td>
<td>Legal Scrutiny Report (LSR) from bank's advocate $</td>
<td>575.00</td>
<td>575.00</td>
</tr>
<tr>
<td>3.</td>
<td>8 photographs</td>
<td>30.00</td>
<td>30.00</td>
</tr>
<tr>
<td>4.</td>
<td>Stamp Duty **</td>
<td>14100.00</td>
<td>200.00</td>
</tr>
<tr>
<td>5.</td>
<td>Evaluation charges levied by the bank @ 1% of loan amount</td>
<td>2000.00</td>
<td>2000.00</td>
</tr>
<tr>
<td>6.</td>
<td>Stationery charges as levied by the bank</td>
<td>250.00</td>
<td>250.00</td>
</tr>
<tr>
<td>7.</td>
<td>Insurance</td>
<td>7,000.00 (@ 3.5%)</td>
<td>3000.00 (Approximately. Depending on cost of tractor)</td>
</tr>
<tr>
<td>8.</td>
<td>Affidavit (notary)</td>
<td>50.00</td>
<td>50.00</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong>*</td>
<td><strong>24015.00</strong></td>
<td><strong>6115.00</strong></td>
</tr>
</tbody>
</table>

Source: Primary Data

Note: $ 0.4% of loan amount subject to a ceiling of Rs.575; of this, Rs.75 is paid to sub-registrar’s office

** Rs.70/- per thousand as the loan is above Rs.1,00,000/- plus Rs.100/- for cost of agreement form. No stamp duty in case of loan for tractor.

*** 12% of the loan amount

# 3% of the loan amount
As many be seen from the above analysis, a limit of Rs.2,00,000/- under Kisan credit card was costlier by 9 percent as compared to a term loan of Rs.2,00,000/- for a tractor.

As result of this prohibitive cost the farmers were restricting their demand for credit limit under Kisan credit card to the exemption limits to avoid exorbitant cost on account of stamp duty. Some of the farmers had successfully circumvented the problem by splitting their entire demand into smaller chunks and accessed credit from different banks. Nonetheless, they could not avoid facing the procedural problems and other difficulties involved in approaching many banks for loan.

On perusal of the proceedings of SLBC meetings in the states visited during the study it was noticed that banks had been raising this issue in the SLBC meetings but the state governments had declined to raise the exemption limit for stamp duty. Government of India may like to intervene here in the overall interest of the Kisan credit card scheme by advising the state governments to re-examine the issue favorably.

4.18 Cost Reduction

One of the objectives of Kisan credit card scheme was to provide cost effective credit services to the farmers. Kisan credit card had been successful
to certain extent in achieving this objective. There had been reduction in the cost to the farmer in the form of savings on expenses on visits to the banks for sanction of loan, procuring revenue records and other incidental expenses. Most of the farmers expressed similar views. It may be mentioned here that under Kisan credit card limit was sanctioned for a period of 3 years subject to its renewal each year.

Reduction in cost was also evident wherever the farmers were operating the limit under KCC more frequently. This might have led to reduction in the interest burden. Though the number of farmers operating the Kisan credit card account frequently was limited, in due course of time on account of better awareness and borrower education more and more farmers would resort to frequent operations. This will be possible if the farmers opt for need based frequent drawls instead of drawing the entire limit at a time, as was the case prior to introduction of Kisan credit card. Interest burden will also get reduced if frequent repayments are made as and when the farmer has surplus without waiting for about 12 months to make repayments. While in a very few cases, the habit of drawls in driblets has set in, the same is not the case in repayments. Repayments are mostly in lump sums at the end of the year only. Banks may continue their efforts in educating the borrowers in this regard.
However, there had been discontent among the farmers about the comparatively high interest rate charged by the co-operative banks on the crop loans under Kisan credit card. The rates charged by co-operatives were in the range of 15 to 17 percent whereas commercial banks were charging about 12 percent. Thus the difference was 3 to 5 percent which was quite high. The interest rates in Co-operative banks were higher because of 3-tier organisational structure i.e. State Co-operative Banks, District Central Co-operative Banks and finally Primary Agriculture Co-operative Credit Societies. There is very little that co-operative banks can do about it, unless state governments concerned takes decision to reduce the number of tiers to cut the cost of management, which in the present scenario appears difficult. This issue is too big a policy matter to be addressed in this limited study. However, NABARD has constituted an Expert Committee on Rural Credit (ECRC) which would be examining this issue in greater detail and making recommendations in this regard.

Banks had been levying various types of charges for issuing Kisan credit card. This had added to the cost of credit. Banks need to take a liberal view and may keep these charges to the minimum. In fact, banks would be able to gain more and the additional cost of Kisan card may be covered having more growth in business in the form of more farmers availing Kisan card facility. Further, in order to bring greater transparency and increase in the
mutual trust in the relationship with their clients, banks should inform all the borrowers about such charges.

4.19 Flexibility in Operations

Kisan credit card aims at providing credit support in a flexible manner. However some of the banks had formulated the KCC scheme in such a manner that it had become very complex and cumbersome to operate. The problem was more in respect co-operative banks. For instance in Maharastra state, Central Co-operative Banks, (CCBs) were allowing drawal strictly on the seasonality discipline basis. Thus those accounts were not operated as cash credit accounts in true sense as the drawls and repayments were not allowed frequently to the borrower. Further the card holders were not allowed to draw directly from the branches, but were getting their credit requirement through PACS, as was the practice before issuance of Kisan credit card. Similarly on account of the seasonality discipline farmers were not free to buy fertilizer and other agro-inputs during the time when those were cheaper. Some co-operative banks were sanctioning limit under Kisan credit card separately for cash and kind component. Farmers had to draw the kind component as inputs from PACS and they were not allowed to draw cash in lieu of it. Due to this restriction, farmers had to buy inputs from the PACS even though those were cheaper in the open market. Some of the farmer would rather restrict their draws from the credit limit to the cash component
only and forgo the kind component to avoid lifting of their substandard or at times costlier fertilizer and other inputs from PACS. Thus these farmers resort to other modes of getting finance including money lenders.

Similarly in many commercial banks and RRBs the drawals were permitted subject to seasonality discipline. Break-up of the limit for crop production into seasonal sub-limit restricted the operation of the Kisan credit card limit as a revolving cash credit. On account of these restrictive practices farmers were drawing the full amount sanctioned for particular season or crop in one go to avoid problems later on. Similarly farmers were also not making frequent repayments even if they had cash as the banks were not permitting them drawals once the entire credit assessed for a season was withdrawn even if there were some repayments and the outstanding were less than the limit sanctioned. This worked as a disincentive to farmer for making frequent repayments.

Some of the suggestions and recommendations for the above mentioned problems have been given below:

(a) The KCC should be allowed to be used as a revolving cash credit as envisaged in the original scheme. Banks may like to issue necessary instructions in this regard. RBI and NABARD may also guide the banks on the matter.
(b) In case of co-operative banks, drawals may be permitted even at the branch level giving flexibility to the farmer. Many states have been allowing it and no major problem were reported in the operations though it involved an extra manpower for maintaining the mirror accounts.

(c) It is suggested that the drawal may be allowed on the aggregate credit limit without insisting on the seasonality to allow the farmer to have sufficient flexibility in purchase of inputs at the beginning of the year in advance, wherever possible. This will enable the farmers to avail of lean season input-price advantage.

4.20 Fixation of Due Date for Repayment

Kisan credit is essentially a revolving cash credit and normally sanctioned for a period of 12 months. Thus no drawl from the limit sanctioned should remain outstanding for than 12 months. However banks were following different practices for fixation of due dates for repayments as described below:

(i) The Co-operative banks including some RRBS continued to fix the due dates separately for Kharif and Rabi crops i.e. 31 March and 30 June respectively.
(ii) In Maharashtra, State Bank of India was also following seasonality pattern while fixing the due dates i.e., one single due date for Kharif and one single due date for Rabi.

(iii) Some banks were fixing the due dates within six months from the date of drawal matching with the harvest season. While some banks were insisting that certain portion of the outstanding of earlier drawals should be repaid to become eligible to operate up to the next seasonal sub-limit.

(iv) Some banks were also following the practice that no drawal should remain outstanding for more than 12 months.

(v) Bank of India was fixing one due date i.e. 30 June and was insisting that the account may be brought to credit/ 'nil' as on 30 June.

Since the KCC is in the nature of a revolving cash credit system, the "due date" concept need to be re-examined to make it more user friendly and simple to align with overall spirit of Kisan credit card scheme. It is suggested that simple procedure of each drawl repayable within a maximum period of 12 months may be followed. Any outstanding beyond 12 months may be treated as overdues.
4.21 Leased-in and leased-out land

Although the model guidelines as also the schemes of banks provided for inclusion of leased-in land and exclusion of leased-out land, there were practical difficulties in implementing the same as the banks were not accepting the oral lease. Land leased-in and leased-out orally were not recorded in revenue record. In the absence of this, the limits were based on record of rights for land holding without any reference to leased-in land. Farmers who cultivated leased in land did not get bank credit for the leased-in land. On the other hand, farmers who had leased out some portion of their agricultural land enjoyed the benefit of bank credit based on their record of right even on the portion of land not cultivated by them. Since the lease so agreed upon is oral, the farmers were not able to draw limits on these accounts, whereas some of the farmers who have given their land on lease and not cultivating the land are availing credit from the banks.

In India, a large number for farmers cultivate leased-in land. They had to invest a substantial amount as advance to lessor. To meet their financial needs, these farmers are compelled to approach private financiers in the rural market. Government of India may examine this issue in consultation with the state governments to work out simple procedures for documentation of leased-in/out land.
4.22 Crop Insurance

Government of India had introduced Rashtriya Krishi Bima Yojana (RKBY) for insurance of crops. This yojana is in force in 18 states. It may be mentioned that RKBY does not cover all crops. RKBY appeared to have certain problems as reported by the farmers from the field. The premium charged from "other farmers", which include bigger farmers was at the rate of 3.5% of the sanctioned amount of loan for the crops which was reported to be very high. Although General Insurance Company (GIC) had agreed to extend the facility to Kisan credit cards holders for the crops eligible for insurance, it was difficult to maintain crop-wise details of sanctions as well as drawals, as the GIC entertains the claims to the extent of the outstanding only, subject to furnishing of details by the bank for the crops covered. This would only be possible if the farmer indicates the name of the crop in each of his drawal and bank maintains crop wise record. This would be very impractical at the field level. The problem would be more complex in multi-cropped areas where farmer grows two or more crops for which insurance cover was available. However, the difficulty would be less in mono cropped areas. Besides this, there were other problems as narrated below:
(i) In certain states like Karnataka, the RKBY does not cover plantation/commercial crops such as Sugarcane, Cotton and Potato, which are being cultivated by farmers.

(ii) The defined areas under RKBY for notified crop is 'TALUK'. The farmers are demanding that the area affected should be reduced to a collection of a few villages. The farmers feel that otherwise the scheme would be of no use and would only add to the cost.

(iii) The other important issue in the RKBY is about the seasonally. RKBY stipulates and adheres to seasonally and since the Kisan credit card account is a cash credit account, it cannot be ensured that farmers avail credit during that season only. Farmer may try to take advantage of the account and draw only when he needs by deploying his own money first and draw off-season, in which case, his claim is likely to be rejected.

(iv) In Rajasthan, in the absence of a crop insurance policy and due to successive drought conditions, the farmers have suffered huge loss. There is need to implement RKBY in such states.
4.23 In the light of above observations following suggestions have been made:

(a) Insurance of crops can play a role in stabilising the growth of agricultural sector. Therefore, it would be in the interest of all the states to implement the scheme. If there are certain hurdles in it, State governments in consultation with Government of India may sort them out with GIC.

(b) In order to encourage small and marginal farmers which are the most vulnerable group the rates of premium should be kept low.

(c) The premium rate for other farmers may be revised downward suitably.

(d) The scheme should endeavor to cover all types of crop so that it can be made applicable to the entire credit limit under Kisan credit card.

(e) The "defined area" under the scheme has to be realistic in order to provide real benefit to majority of the farmers affected by any natural calamity.

4.24 Maintenance of detailed crop-wise data

Banks particularly co-operative banks and CBs are required to maintain various information on the financing done by them under seasonal agricultural operations. For instance crop wise data in respect of crops covered under the
RKBY, National Oil Seed Development Programme (NODP), and Special Food Grain Production Programme (SFPP) required to be maintained by the banks. These data are required to be furnished to Government of India and other agencies. Banks had expressed their opinions that maintenance of data on the crop-wise details of drawals would be difficulty under Kisan credit card where a composite limit is sanctioned to the farmer covering not only all the crops grown by him but also other short term purposes. Some more practical approach would have to be adopted if such detailed data is required to be maintained. One way could be that disbursement under Kisan credit card limit for various crops may be reported in the proportions of the sub-limits sanctioned for various crops instead of actual drawals. The staff of the co-operatives banks had been complaining increase in the work load due to Kisan credit cards scheme as in co-operatives banks mirror accounts are required to be maintained at bank branch level for operations on Kisan credit card. Maintenance of such large amount of data also calls for computerization of banks.

4.25 Lack of awareness and human resource development

Despite considerable promotional efforts by banks, farmers were not aware of the facilities available under the scheme. Similarly bankers in the field were also not very much familiar and at times not convinced about the utility and various operational aspects of the scheme. Thus there is need to
augment the efforts to publicize the virtues of the Kisan credit card and educate the farmers on its operational aspects. Mass media support may be used for publicity of the scheme. Bank branches may also organize Kisan credit card camps to educate the farmers. For bankers, suitable training may have to be arranged at the training establishments of various banks as also other apex training institutions. For the staff of co-operative banks, extensive training arrangements existing at the state as well as national level may be accessed. Bankers Institute of Rural Development may take a lead in designing suitable training modules and also the training of trainers from banks particularly from co-operative banks and RRBs on Kisan credit card so that training programme can be replicated at a fast pace.