CHAPTER – VI
KISAN CREDIT CARDS - ISSUES AND CONSTRAINTS

The study has brought to light certain operational issues, mainly pertaining to the varying eligibility criteria adopted by the banks for issue of KCCs, fixing of due dates, interest rates, levy of service charges, remittance of crop insurance premium, etc. Some of these issues are enumerated as under.

It was observed during the study that the KCC was mostly being issued to the farmers once only. The limit was being revised every three years on the basis of the revised SoF and cropping pattern. However, in a few cases there was drastic upward revision of the limit and a new card was being issued which sometimes counted again resulting in double counting and increasing the number of card issued.

Though there is evidence of the KCC being more flexible and used as a cash credit (CC) facility, it appeared that most of the beneficiaries used it as one shot of operation. By and large one disbursement per season was observed in the KCC. The study revealed that the farmers were apprehensive of repaying installments as if, they might not be allowed to draw for the next crop. That the scheme allows frequent drawals and that the sanction will not cease on the repayment of annual limit / sub limits needs to be popularised
among KCC holders. It was revealed that the KCC holder was apprehensive that if he repays he will not be able to draw further credit as and when he wants. In view of this the improvement in velocity of credit and recycling was not evident in KCC accounts. At the same time, it needs to be popularized that the credit balance in the accounts will earn savings bank rate of interest.

The study observed that the cost reduction was not fully evident. That the KCC mode is cost effective needs to be firmly established. Savings in expenditure (cost) in the form of stamp duty and savings in expenses incurred in connection with the number of visits to the bank at pre-sanction stage are evident. As against this, the levy of service and other charges, which were, not there in the previous crop loan system could increase the cost. Since these costs are incurred only once, the annualised cost impact may not be very heavy as KCC limit is sanctioned for three years, and after three years only again documentation and expenses are required.

KCC Scheme covers all the crops and the entire year's requirement. As it is issued for a higher amount than the previous crop loan, Stamp duty on account of registered mortgage increases the cost substantially. It was observed that the stamp duty could hinder larger size loans under KCC. In case of larger limits the search fee could also increase the cost. This needs to be pursued vigorously in different forums like, SLBC, etc.
The crop insurance scheme continues to pose problems on account of limitations in the crop cutting experiments (CCEs) and noncoverage of certain crops. KCC gives the farmer the flexibility to draw the amount of loan any time whereas only those loans which are drawn strictly within the season gets covered under crop insurance. Similarly, if a farmer were to use his money initially and draw the bank loan later he could be deprived of the insurance due to seasonality stipulations. This could pose many problems in the coverage of insurance scheme.

It is learnt that banks find it difficult to maintain data on cropwise loan issued and outstanding. One of the stipulations is that while disbursing the money the bank will ask for and maintain crop wise data. Given that the money can be drawn in any branch such a procedure is impracticable, as it would call for movement of MIS between branches. The field visit has also shown that the actual crop grown and crop reckoned for the limit could be at variance. Here again the insurance coverage could pose difficulties.

Though land taken under oral lease can be considered for arriving at the KCC limit, there was no evidence of its acceptance. Banks felt that acceptance of oral lease could result in double financing as both the owner and the lessee can avail bank credit. Instances of farmers who have given the land in oral lease but enjoying credit with the banks have been noticed.
The moneylender / commission agents play a crucial role in financing the farmer. The scope of KCC needs to be expanded further to create more farmer's friendly environment so as to shift more farmers from informal to formal sources.

Management Information System (MIS) by controlling authorities on production credit, filling up LBRs, and claims/ premium on crop insurance, crop-wise data (OPP or NODP etc.), on disbursement and outstanding. This necessitates generation of large volume of data on sub-limits and various crops covered by KCC. This also calls for exclusive back up data. As the banks have to reduce cost of operations they feel that the data requirement is large and there is redundancy. The MIS needs may be re-looked, as the workload needs to be reduced.

'Cheque facility' in the KCC is not fully evident. The use of the 'Debit slip' system by most of the farmers restricts the operation of the KCC to the issuing branch/ society.

The study revealed that the DCCB was not making any provision for consumption loan in the KCC due to resource constraint. In fact it was not being able to meet the crop loan requirement of the members. The Commercial Bank was making a provision for consumption loan to the extent of 10 percent of the total loan. However, it did not provide for term loan. The
KCC scheme of SBI and the Indian Bank provided for LT loan in their scheme. The bankers normally avoid 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. differs. Perhaps large-scale computerization with appropriate software may address the problem.

As regard charging of interest rate the procedure being followed by the cooperatives leaves lot of scope for improvement. In case of first time member/borrower, a 10 percent share capital was being deducted which means the PACS was charging the rate of interest of 7 percent upfront. Further, the interest subvention benefit was being extended to farmers only if the loan is not due per repayment. If it is overdue, interest was charged at 11 percent from the date of disbursement. If the repayment is not received on the due date, a penal interest of 0.75 percent was being charged.

During the interaction with the farmers it was gathered that the there is some relief for the farmers in terms of sanctioning credit limit once in three years and drawing the limit once in a year. But, they expressed some concern in matters relating to sanctioning of credit limit particularly by the cooperatives. The documentation required according them has to be simplified as it makes them visit to the revenue officials, Secretary of PACS number of times. The Secretary of PACS after receiving an application along with the certificate from VRO containing the survey number etc. in respect of
the land of the farmers awaits for other farmers to prepare a Normal Credit Limit Application to be submitted to the DCCB. Once he prepares the same for all the eligible farmers in the village/s he submits the same to the DCCB. The DCCB sanctions the same in the light of the resource available with them and the eligibility of the PACS. The process takes about one month. However, to meet his requirement the farmers avails loan from moneylender or other private source with high rate of interest. If the loan exceeds Rs.50,000 or the farmer is sanctioned a special loan then the PACS insists on the title deed, EC and mortgage to be registered at the sub register office.

In case of Commercial Bank, crop loan through KCC up to Rs.50,000 was relatively hassle free but the documentation is still elaborate. The study team came across that an application for a loan below Rs.50,000 required the application form, photograph, asset liability statement of the borrower, Demand Promissory Note (DPN), Agreement for hypothecation, letter of authorization, documents delivery letter, consent letter from borrower for disclosure of information, photo identity card, copy of ration card, VRO certificate on cropping pattern, no due certificate and original or copy of Pattdar Pass Book (PPB). If the limit is beyond Rs.50,000 the registered title deed, Non Encumbrance certificate, legal opinion, MRO's report, stamping of hypothecation @ 0.5percent of the loan if the land exceeds 5.0 acres, stamping for mortgage at 0.5percent, for registered mortgage stamping at
3.0 percent, etc. were required. Therefore, it may be observed that the RRB release the loan up to Rs50,000 within a day or two once the complete application is received but the complete application is required to be simplified so as to make it hassle free. The loan beyond Rs.50,000 is definitely not hassle free as the security in the form of mortgage and EC are time consuming involving several visits to the revenue officials, banks, etc., resulting in loss of man days and consequent high transaction cost for the borrower.

The study suggested that the add on features on KCC could be further improved in terms of extending other loan such as consumption loan, term loan and evolve the KCC into a truly multipurpose card. Even the various benefits under Government programme, Insurance may be channelised through KCC.

One of the reasons of farmers not availing the facility of cash credit limit is the transaction cost such as cost of transport, loss of one day wages and also the availability of branch manager (availability of cash in case of cooperative bank) etc. the Branch Manager also discourages number of withdrawal and payment as the banks transaction cost goes up. Use of technology in the form of smart card or hand holding machine may address the problem. Let us imagine a BC be it the PACS itself in each village with a hand holding machine who may carry out the credit delivery job allow
withdrawal and deposit function. Some of the models grounded under Financial Inclusion Technology Fund may be adopted for the purpose. Out of four PACS visited during the study, three of them were inclined to adopt new technology in the form of multipurpose smart card in implementation of KCC.

Electronic card/Smart card may address the challenges of further reducing the transaction cost for bankers/farmers, streamlining the accounting practice, adding the additional features in the KCC, etc. The farmers overwhelmingly preferred a smart card as approaching the banker and the attitude, efficiency etc, coming into play stating from opening an account to withdrawal. However, the issue needs to be assessed as to whether to use electronic card on the lines of low cost ATM designed by IIT, Chennai or to have a BC model with handholding machine. In case of Gram teller, i.e. ATM developed by IIT, Chennai, unlike other ATMs is meant to be a cash dispenser which plugs into a kiosk PC, which acts as tunnel between the dispenser and the bank server thus by passing the switch used by the ATMs. The financial transaction switch is an enterprise server that connects the ATM to information from various sources, which then dispense with the switch, thus reducing the cost of the machine to about Rs.50,000. The server is encrypted and runs on appropriate format developed by IIT, Chennai. Unlike the PIN numbers log-in access facility, Gram teller is equipped with biometric sensor so that once the customer's fingerprints are registered, PINs need not
be used. Aimed at the rural market, the low cost ATM makes it more user friendly for people in rural India who are more into finger impression mindset for taking cash. However, it is only a money dispenser and there is no facility for receiving the money. The acceptability by the farmers may also take time. The BC model may be more flexible and practicable mode for accepting deposit and dispensing credit. Alternatively both the models may be piloted at this stage and the same may be introduced as per the suitability of a place.

The study observed that the effective utilisation of KCC was not possible because of the cumbersome documentation process required to become a KCC holder and thereafter-availing production credit. As already indicated in earlier chapter, the documentation required for a loan up to Rs.50,000 were quite loathsome and costly affair particularly, for small and marginal farmers. A simplified single smart card oriented format may serve the purpose. The emphasis may be on two aspects, one, identification, which may be solved with biometric card with thumb impression and photograph and the other aspect is Survey Number of the land to be cultivated and simple charge thereon by a written declaration. The Patadar Pass Book may be adequate for security purpose. Further, RBI needs to consider revising the limit for security to Rs.1 lakh. For loan beyond Rs.1 lakh the Patadar Pass Book should become the only form of security. The stamp duty for registration of mortgage may be completely done away with.
Awareness of farmers about KCC, its functioning and its benefit are imperative for the success of the KCC scheme. NABARD may support banks, Farmers Clubs, NGOs and farmers organizations for large-scale training making use of FTTF. The Smart Card project on KCC or low cost ATMs in rural area may be piloted making use of FTTF. The interest subvention scheme may be made applicable to KCC holders only.

There is a positive impact on the reduction of transaction cost of the farmers as well as bankers by the introduction of KCC. Once the limit is sanctioned for 3 years the farmers escapes the trouble of getting the limit sanctioned every year. That way he saves approximately Rs.1,000 and Rs.2,000 for loan upto Rs.50,000 and beyond Rs. 50,000, respectively. The above cost have been estimated on the basis of feedback received from the farmers (the break up have been indicated earlier). In case of bankers there is no effort on the part of the branch to compute the fall in transaction cost due to introduction of KCC with duration for 3 years. However, the bankers indicate that there is reduction in transaction cost of the bankers as the number of visit by the farmers to the bank is reduced considerably. The banker also need not sanction the limit every year. In case of RRB there is an in built system of 10 percent increase in the limit every year. Therefore the increase in scale of finance, if any is taken care of in the process.
The bankers in the many parts of the country are finding it difficult to finance Joint Liability Groups (JLGs) as their insistence on survey Number of the land to be cultivated to avoid duplicate financing is difficult to be complied by the tenant farmers. The landlords are not ready to submit the survey number, as the landlords are apprehensive of the fact that there may be illegal encroachment/usurpation of property and consequent litigation. The financing of JLGs in the many of the States has not picked up so far. For example, the recent decision taken by the Revenue Department of the Government of Andhra Pradesh to bring in new law vide which the tenant farmer can avail of a loan through a simple no-objection certificate (NOC) from the land owner may address the issue and enable the tenant farmer/JLG to avail the crop loan. Further, there is no empirical evidence of bankers' reaction to the sharing of liability in case of default. However, during the course of our discussions with bankers it was understood that the bankers perceive the financing of JLGs as prone to high risk. They have not given much thought to sharing of liability in case of default by JLGs. Few banks have ventured into financing of JLGs with the pressure from the Government. The study team, however, feels in order to build up the confidence of the bankers to finance the JLGs a risk fund in the form of Credit Guarantee Fund (CGF) created out of MFDEF/FIF may be considered.
The field study revealed that the bankers have not thought of the issue of building the interest concessions into the KCC. But during our discussions the following procedure was more or less acceptable to some of the bankers. The PACs or the branch of RRB/commercial bank as in case of interest subvention scheme may pass on the interest concessions at the ultimate borrower level. It may be clearly indicated in the KCC be it the existing card or in the form of a smart card. In case of the cooperatives, the amount may be passed on by the SCB to the DCCB and the DCCB to the PACS pending receipt from the GOI. The SCB may be reimbursed once the amount is received from the GOI through NABARD. The interest loss for the interim period may be borne by the SCB and the DCCB as the leader of the cooperative movement in the State. In case RRB, the same procedure may be followed and the RRB or the Commercial bank may bear the interest loss.

At present though the banks are required to give laminated cards as KCC to farmers, practically none of the banks issue such cards. What are issued in the name of KCC is only a passbook and some banks do not even give such individual passbooks. In order to provide the benefits of emerging technological advancements to the farming community in the rural banking sector and to provide financial services in a cost effective manner, the scope for issuing smart cards to the farmers needs to be explored. Under the Financial Inclusion Project, in some of the states like Andhra Pradesh, such
cards are issued to the clientele by roping in technology service providers through BC model. Farmers have to be provided with such cards by leveraging technology and the cards with interoperability should enable the farmers to make and receive payments through various service providers like input dealers, technology support organisations, market yards, etc. so that there is significant reduction in transaction cost as also saves precious time to the farmers. Further, provision of services to the farmers at the doorstep by deploying mobile devices would result in higher volume of transactions though the cards and its frequent usage, which is one of the basic objectives of issue of KCC. We may consider piloting this model in one district and consider upscaling KCC.

The analysis in various chapters shows that the KCC scheme has made a significant impact on the availability of short-term credit from formal sources. The amount borrowed from formal financial institutions by all categories of KCC holders taken together has increased by around 70 percent after the issuance of KCCs. Among various categories of farmers the extent of the increase in availability of short-term credit ranges between 23 percent for marginal farmers to 70 percent for other farmers. With the increase in amount borrowed from formal sources as come down by about 52 percent in the combined sample after they were given KCCs. The fall in the amount borrowed from informal sources was witnessed for all three categories of
KCC holders (tenant, marginal, small and others without any exception. The other major change, which has been witnessed in KCC scheme, is that there is significant drop in number of sample farmers borrowing exclusively from informal sources for meeting their short-term credit needs. The general improvement in access to short term credit is also evident from the qualitative responses of selected bank branches as well as farmers in all the parts of the states. About 94 percent of sample branches believe that there is an overall improvement in the availability of short-term credit after the introduction of KCCs. Most of the farmers (75 percent) agreed with what bank branches had to say on access to short term from formal sources.

In general there has been 12 to 14 percent decrease in costs of borrowing short-term credit from formal sources after the farmers were given KCCs. The quantum of decrease in costs experienced by various categories of farmers varies from 8 percent for marginal to 12 percent of other farmers. The comparison of total costs incurred by this who do not have KCCs and those who have KCCs reveals that overall costs incurred by non-KCC borrowers were 14 percent higher than the costs incurred by those who have KCCs. This is true for all sample states and for most categories of farmers. In pursuing an equitable balance is very important among various categories of cultivated households were based on size of land holding for social groups or status-quo tenants.
While there are several policy initiatives, which need to be taken to revitalize rural credit system, in the context of KCCs, however, the policy measures, which emanate from the analysis carried out in the study can be clubbed into following two categories. (i) Expanding coverage under the KCC scheme. (ii) Maintaining sustainability and long-term viability of the scheme.

Expanding coverage under the scheme means that financial institutions have to reach all eligible households, and bring under their fold those households who take loans mainly from informal sources and those rural households who do not borrow. The increased expansion of coverage under the scheme will not only lead to increase in the volume of business, but will also help in reducing transaction costs significantly.

The analysis also shows that there are several hindrances in the scheme, which have to be handled on a priority basis. These are important for the scheme to establish as a better credit product over the other forms of credit product that had been in existent in the past.

The responses of KCC holders also suggest that the idea of granting freedom and allowing usage of their cards wherever they feel like (smart card) yet to take-off. One deterrent is restrictions imposed by issuing banks in the
name of lack of computerization and the number of transaction that the farmer can make within the prescribed credit limit, the usage of seasonal limits for regulating the flow of credit within stipulated maximum limits and the repayment schedule allowed by the banks.

For maintaining long-term viability of the scheme, issues associated with maximum credit limits and lending rates are critical. The past experience suggests that high default rates and rate of interest seriously affect the efficiency of financial viability of rural financial institutions. Studies have shown that one of the reasons for defaults has been under financing. Thus the issue of maximum credit limit assumes importance. The study shows that close to percent of KCC holders were not satisfied with their credit limits, which is true for all categories of farmers. On top of it there are several restrictions on the amount that the farmers can borrow even within their prescribed credit limits. For fixation of seasonal sub-limits the farmers have to intimate banks every time about the crops that they are likely to grow and also give an undertaking about the land leased in and leased-out in a prescribed format. In all the states, particularly in the case of co-operative banks, farmers reported that the institutions insist on taking part of the loan as kind component, which means that only a part of the total limit is treated as a cash component. All these restrictions limit the freedom of KCC holders to utilize the amount sanctioned under the maximum limit.
As a consequence of lower limits and various restrictions, the borrowers are forced to meet their balance requirements from informal sources. The analysis also shows that the actual credit limit fixed by the banks do not even meet the cost of cultivation and if other requirements such as opportunity cost of family labour and consumption expenditure (on food, education, health care and social obligations) are included the credit requirements are far above the average credit limits fixed for all categories of farmers in all the states. What this means is that the requirement for short-term credit is much higher than what is being currently made available to them. Obviously, if sufficient credit is not made available to the farmers from formal sources, they will be forced to approach informal sources, because the cost of cultivation cannot be met out of their personal sources of income. The policy implication is that both the criteria that are used to fix credit limits as well as the weights assigned to them are somehow not adequate and do not reflect the reality. Therefore, it needs to be examined.

As an alternative among several criteria the two variables, cost of production and consumption expenditure could be employed for credit estimating of requirements because these variables explained about 90 percent variation in credit requirements. Therefore, the estimation process in fixing the scale of finance being adopted by various banks needs to be reviewed to
reflect changes in cropping pattern, technology, inputs use and other miscellaneous expenses.

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 means rate of interest ultimately matters to the farming households apart from adequacy and availability on time. Though it is true that costs of delivering credit after the introduction of KCCs have certainly fallen. This is obvious from the savings in banks that have occurred at the branch level to process agricultural loans due to decrease in the frequency of applications and improvements in the procedures and costs of delivering short-term credit as reported by bank branches. 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.

This is also evident from the recent experience of advising banks to reduce their lending rate to the agricultural sector at 7 percent with subvention from Government and Reserve Bank of India. The interest subvention is
desirable taking into the higher cost of raising resources and lower margins by various rural financial institution.

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.