CHAPTER – VII
FINDINGS, SUGGESTIONS AND CONCLUSIONS

The KCC came into existence in 1998-99 as a credit product that allowed farmers the required financial liquidity and avail credit when it was absolutely needed, providing in the process flexibility, timeliness, cost effectiveness and hassle free services to the farmers. Since almost one decade has been passed since the implementation of KCC scheme in 1999, it was felt by the NABARD to (i) critically examine the difficulties and operational problems / bottlenecks encountered by the farmers as well as the implementing agencies, (ii) critically review the progress of the scheme, particularly from the angle of its geographical spread, bank-wise progress and coverage of different categories of farmers. Accordingly, the study was conducted in Kanyakumari District with the above-mentioned objectives. A total of 500 KCC holders from branches from Co-operative banks (285 farmers), Commercial banks (175 farmers) and other banks (40 farmers) were selected for a detailed study.

KCC is one of the most innovative, widely accepted, highly appreciated and non-discriminatory banking products. It is beneficial to farmers. Though relative share of the institutions in the issue of agriculture crop loans remain the same the progress under KCC is highly satisfactory. Constant monitoring and thrust given by NABARD has substantially
enabled the progress. NABARD may be empowered to monitor the commercial banks also.

As of now there appears no correlation between issue of KCC and increase in crop loan volumes. The study finding could not establish any relationship. It is however seen that nearly 75 percent of the crop loan is issued in the form of KCC. Banks have however reported that defaulters have come forward to clear the debt to get KCC. Financing of new borrowers has also been reported.

Though there is evidence of the KCC being more flexible and used as a cash credit facility, it appears that it will be some time before the KCC is used fully as a credit card. One of the factors that inhibited velocity of transactions in the account is the repayment stipulations that (i) sub-limits should be repaid before the next drawal, (ii) each drawal should be repaid within a year from the date of drawal, (iii) the account should be in credit at least once a year, and (iv) specific due dates irrespective of the crop marketing are causing procedural difficulties and need to be reconsidered. Co-operative banks follow two due dates as they feel that drawal-wise due dates are complicated and impracticable. By and large one disbursement per season has been observed in the KCC.

- Secondly it has also been reported that the farmers are apprehensive to repay lest they may 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 popularized. Presently, the KCC holder is 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 is not evident in KCC accounts.

➢ It is also seen that the term ‘any branch withdrawal’ is subject to payment of fee and is not conducive for frequent operation in the account. At the same time it needs to be popularised that the credit balance in the accounts will earn savings bank rate of interest. In the case of cooperatives the practice of sanctioning two limits namely one for kind component and one for cash component is observed. This is because the cooperatives have to disburse the fertiliser themselves and it does inhibit the flexibility.. That the cooperatives have to disburse the fertiliser themselves does inhibit the scheme to an extent.

Cost reduction is 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).

- Since the KCC covers all the crops and the entire year’s requirement, it is issued for a higher amount than the previous crop loan, Stamp duty on account of registered mortgage increases the cost substantially. It has been observed that the stamp duty could hinder larger size loans under K.C.C. Though the number of farmers who would be eligible for larger limits could be small, it is a fact that stamp duty is a deterrent for larger limits. In case of larger limits the search fee could also increase the cost.

The crop insurance scheme continues to pose problems on account of limitations in the crop cutting experiments and non coverage 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.

- Banks have reported that they find it difficult to maintain data on cropwise loan issue and outstanding. Similarly the banks find it difficult to collect the details of non borrowers and pass on the
same to GIC. One of the stipulation 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 which is reckoned for the limit could be at variance. Here again the insurance coverage could pose difficulties.

Though land taken under oral lease can be taken for arriving at the KCC limit there is no evidence of its acceptance. Banks feel 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 as been noticed. It appears that this provision may not be of practical use to farmers.

The interest rate at which the individual gets the loan is decided by the policies of the agency that gives the loan. Herein it is seen that the cooperatives continue to charge a higher rate of interest. Thus it is seen that depending upon the lending bank/ agency, farmers with similar landholding, and within an identical risk class could be charged different Rates of Interest(ROI). The issue of charging similar ROI by all agencies needs to be considered.
The per card limit is the highest with the commercial banks followed by co-operatives. Co-operatives finance big farmers as well as sanction limits to individual farmers.

- The commercial banks and Commercial Banks were found to have fixed realistic crop limits whereas the co-operatives adhered to scale of finance fixed by DLTCs (at times not revised since two or three years) strictly. As the DLTC does not meet regularly (despite the membership of farmers in the committee), it is voiced that the scale of finance is not being fixed at reasonable levels. It is suggested that the co-op banks may be given certain flexibility to vary the DLTC fixed scale of finance by certain percentages and decide the same by themselves as in the case of investment credit.

- NABARD is not able to refinance the co-operatives for ‘consumption sub-limits’. The cooperatives are therefore, not granting a limit for consumption. It is suggested that fund support to NABARD by RBI may be increased so as to enable it to finance this portion also.

The moneylender continues to play a crucial role in financing the farmer. It is necessary that the scope of KCC is expanded further to facilitate faster turn over of credit. It is expected that, in the long run due
to better performance of KCC the role of the moneylender will be marginalised.

Management Information System by controlling authorities on production credit, filling up LBRs, and claims/premium on crop insurance require 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 relooked as the workload needs to be reduced. The commercial banks who have reduced staff by the VRS felt this acutely. The banks feel that the number of crop loan accounts may decrease due to a single KCC limit as against multiple crop loan accounts in the past.

‘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 scheme uses an expression “need based withdrawal”. This has necessitated close monitoring by bank and some times lack of faith. This could inhibit the flexibility in the system. The possibility of farmers applying for credit limit for crops with the highest scale of finance while actually growing some other crops is apprehended.
The study found a number of encouraging results such as hassle free access to institutional loans through KCC effectively resulted in increasing productivity of paddy crop (13.3 percent) compared to the corresponding yield of non-KCC holders. However, the whole of the yield increase was partly attributed to the credit access through KCC. The adequate application of comparatively higher doses of inputs like fertiliser, manure, pesticide, labour, irrigation waters, etc. by KCC farmers are contributing factors for improvement of yield level.

However, there were quite a number of findings reflecting few areas of concern. The study revealed that KCC were issued at the end of March 2010, which constituted around 76.85 percent of the total operational holdings of the districts. The study observed that there was something seriously wrong with the MIS of KCC. The study could detect four types of shortcomings in the MIS on KCC: (a) more than one family member having the same operational holding have been issued the KCC, (b) the same person has been issued multiple KCC by various banks, (c) in certain cases, KCC lapsed after a period of three years, but were still counted as valid ones in the MIS and finally, (d) in certain cases, KCC were renewed after a period of three years, but such cards were shown to be freshly issued. When these distortions are taken into account and the number of genuine KCC are re-estimated, which constituted around 50.63 percent of
the operational holding of the districts. Among the taluks, the maximum coverage of KCCs (ratio of number of cards to operational holdings) were Agastheeswaram (77.53 percent), Vilavancode (74.21 percent), Kalukulam (64.39 percent) and Thovalai (63.07 percent).

Among the major banking institutions, commercial banks and cooperative banks accounted for about 43.7 percent and 56.3 percent of the total number of cards issued respectively. In terms of total loan disbursed to cardholders, the share of commercial banks was 57.5 percent, followed by 42.5 percent for cooperative banks.

Coverage of marginal farmers and small farmers in the KCCs was in the range of 63-68 percent (Coop banks) and 59-64 percent (CBs). Share of tenant farmers was very negligible (<1 percent).

It was observed that most of the KCC-holders were not aware of the modalities, usefulness/benefits of KCC Scheme. Inadequacy credit, non-adherence to scale of finance, lack of flexibility in implementation of the scheme is some of the observations made by the farmers interviewed in the study. It was quite conspicuous that KCC was being used as one-shot loan (68 percent of the sample farmers), not as a cash credit limit as originally envisaged.
The KCC-holders expressed some concern in matters relating to credit limit particularly by cooperatives. Although, a staggering 78 percent of the farmers interviewed responded that KCC was truly a hassle-free card, it was indicated that farmers had to undergo cumbersome procedures for getting a loan above Rs.50,000/-. The effective rate of interest, the opportunity cost of the time spent, financing of tenant farmers are some of the issues, which are to be addressed.

About 19 percent of the sample KCC holders were not aware of the modalities, usefulness/benefits of KCC scheme. Farmers have been issued KCC and sanctioned limits under KCC, but they were not aware of its positive aspects, like, revolving cash credit facility (RCCF) involving any number of drawals and repayments, credit limits for full year including ancillary activities related to crop production and other NFS activities, sub limit for consumption purposes, etc.

Agency-wise, while 26 percent sample KCC holders from Cooperative Banks were not aware of the utilities of KCC, the same was 12 percent and 14 percent for Commercial banks.. Similarly, land holding size-wise, 30 percent of marginal farmers (<1.00 ha.) and 25 percent of small farmers (1.01-2.50 ha.) were not aware of the utilities of KCC.

Categorising sample KCC holders in terms of extent of period of holding of KCC revealed that majority of KCC holders (33 percent) were
availing the facilities of KCC since last nine years. About 21 percent were availing KCC since last seven years. Similarly, about 17 percent, 13 percent, 11 percent, 8 percent were using KCC since last five, four, three, two years, respectively, which implied that every year certain percentage of new farmers were being brought to the KCC fold particularly more prominent during doubling of credit programme (2004-05 to 2006-07) as per the target prescribed by the controlling/head office of the bank. It can also be deduced that quite a significant number of new borrowers had been demanding KCC every year due to its flexibility in usage and other utilities like, flexible drawals, flexible repayment patterns, coverage under NAIS/PAIS, minimum margin/ security norms, etc. Effective publicity and continuous monitoring at the DLCC/BLCC level as also at the level of Controlling/Regional Offices at the district and state level might also have contributed to the larger coverage of new farmers every passing year by the banks.

48 percent of the total sample KCC holders covered during field visit, felt that the credit limits sanctioned to them under KCC were not adequate. Agency-wise, majority KCC holders from Co-op. Banks (60.4percent) conveyed their apprehensions on inadequacy of credit followed by commercial banks (33.8percent).
Land holding size-wise, while about 60.4 - 64.6 percent of small and marginal farmers opined that credit limit sanctioned under KCC was inadequate; the same was about 40.2 - 43.5 percent in case of medium and large farmers. Some of the 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.

The study revealed that no agency including Co-op. bank had been strictly following the scales of finance (SoF). While the SoF has been fixed at Rs.10,500 – Rs. 13,500 for paddy, limit sanctioned under KCC across all the agencies was much less (Rs.8,500-9500). Limit sanctioned as compared to SoF was less by 19-29 percent.

KCC was being used as one-shot operation and not as number of times sanctioning of limit, more numbers of withdrawals/ deposits as originally envisaged. Majority of farmers (68 percent) had not gone for frequent operations on the limit sanctioned to them under the card and withdrew the sanctioned KCC limit at one go. Further, 11 percent and 21 percent KCC holders had operated the KCC limit twice and more than twice, respectively.

The study revealed that all the sample farmers had used the major portion of their average loan disbursed for financing their expenses on raising the crops. About 17 percent of the average loan under KCC was
being used for non-production (consumption) purposes. Agency-wise, sample KCC holders from Co-operative Banks had utilised about 6 percent of their average loan disbursed for consumption purposes, as against 18 - 20 percent in case of commercial banks. Land holding sizewise, small/marginal farmers (29-30 percent) used larger portion of average loan disbursed for non-production purposes as against medium/large farmers (16-25 percent).

78 percent of the total sample respondents responded that KCC was truly a hassle free card. Agency-wise, majority of KCC holders from commercial banks (81 percent) viewed that KCC was hassle free followed by co-operative Banks (68 percent). During the interaction with the farmers it was gathered that KCC holders got some relief in terms of sanctioning credit limit once in three years and drawing the limit once in a year.

Out of the 469 farmers interviewed, 76 percent of total sample felt that the KCC was very much farmer friendly. The KCC holders got benefits like, (i) meeting credit requirements for crop cultivation for the whole year, (ii) availability of credit whenever the credit is needed, (iii) flexibility in drawing cash/buying inputs from any supplier of choice, (iv) reduction in quantum of interest due to drawal flexibility, (v) reduction in
cost of credit for availing the bank loan, (vi) insurance cover (NAIS/PAIS) at a very low premium rate.

Loaning operation with Coop Banks (PACS) was found costly as effective Rate of Interest (interest+non-interest) worked out to be the highest and ranged from 8.25 to 9.50 across slabs followed by commercial banks (7.25 – 8.00).

Borrowers in PACS spent more time but minimum money for completing sanction formalities. Overall sample, opportunity cost of time spent on formalities was valued at Rs.146. Difference in the cost across agencies could be attributed to nearness of bank branches, formalities involved, efficiency and approach of the staff in sanctioning of loans.

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 in the ratio of 4:2:1 and evolve the KCC into a truly multipurpose card.

Introduction of biometric cards, deployment of Banking Correspondence (BCs), simplification of procedure, financing through Joint Liability Groups (JLGs) mode, Weather-based Crop Insurance Scheme with Cyclical credit may go a long way in providing more relief to the distressed farmers. At this juncture, there is a need for more
proactive initiatives by the commercial banks, state governments in promotion of JLGs, SHGs, Farmers’ Club and Innovative Insurance Products, etc., and adoption of “Mission Mode” approach to make KCC into a farmers’ friendly efficient instrument for credit delivery system accompanied by appropriate institutional mechanism.

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Suggestions

The agreements and other covenants/documents to be completed are complicated and simplification is recommended as has been done by some banks. All banks may examine their systems and make modifications within two months, and report compliance to the Reserve Banks of India.

The focus of credit appraisal should be an evaluation of the income stream of the borrower, and a comprehensive assessment of credit needs
taking into account track record, credibility, capability, as well as technical viability of the proposal.

To ensure quick disposal, at least 90 percent of loan applications should be decided at the branch level. Banks may, therefore, review the position and suitably modify the powers of sanction delegated to the branch manager.

Short term credit needs of the farmer should include all requirements directly and indirectly related to production, post harvest and household expenses. Repayment capacity should be assessed on the basis of aggregate household income from all sources including crop production and ancillary activities. The credit facility should be extended through a composite cash credit limit. The limit may initially be provided for one year but over time extended for a longer period and brought to credit at least once a year. On credit balances banks would pay interest, and charge interest on the outstanding. Advances under such limits may be ‘reckoned’ as advances to agriculture within the definition of priority sector.

In line with the change in approach towards appraisal of loan proposals for lending recommended by the Committee, the forms, accompanying the main application, especially, for investment credit should be simplified and made more relevant for focusing on the income stream of the farmer. It is
recommended that the Reserve Bank of India may appoint an expert group to finalise the new forms.

During cash rich periods, farmers have a propensity to invest in gold, land, implements, livestock or incur expenditure of a consumption nature. As a result they are vulnerable during times of adverse price fluctuations and natural calamities. To address the issue farmers should be offered a liquid savings product with an appropriate return which should be inbuilt in the loan product so as to provide them a cushion during lean period.

The system of adoption of scales of finance for short term loans and unit cost of investment credit has led to distortions at the base level and introduced an element of rigidity in assessment of credit requirements. In view of the expertise developed by banks in financing agricultural operations, and in order to give them flexibility to take care of variations in the requirements of borrowers, the fixing of the scale of finance/unit cost may be decided by the concerned banks.

The system of disbursing agricultural loans, partly in cash and partly in kind has restricted borrower’s choice and given rise to undesirable practices including submission of false bills and receipts. In order to foster an environment of trust, banks may disburse loans for agricultural activities on a
cash basis only and discontinue the practice of obtaining bills/receipts of inputs/assets purchased.

Insistence on No Dues Certificate (NDC) as an invariable precondition for sanctioning a loan is unnecessary and time-consuming. Where banks are conversant with the track record of the borrowers, obtaining a NDC should be left to the discretion of the lending banker.

Without recovery at acceptable levels lending cannot be sustained. Recovery of dues has issues which are legal, administrative, as well as in which publicity is necessary. Specific recommendations include requesting State Governments to set apart dedicated terms for recovery, improving the recovery climate through rural oriented field publicity campaigns projecting the message that banks are willing to lend to viable borrowers, and unless funds are recycled lasting relationships cannot be forged through the credit mechanism.

The accounting systems in banks need to focus on systems by which recovery is desegregated by loan products, as well as by time so that it is possible for managers to determine which products are more viable and whether current recoveries are better than past dues. The branch managers also need to have a statement of defaulting borrowers more promptly than is possible under the existing procedure.
Apart from steps for improving collection of dues, the Committee recommends that tangible incentives be provided to farmers who are prompt in repayment. Banks should, design appropriate incentive systems including interest benefit or rebate to borrowers who repay their dues promptly. Besides incentives for prompt repayment, farmers who opt for a savings module linked to the loan product, may be given a finer rate both on the loan as well as on the savings product.

Taking into account the procedural difficulties and the high cost of stamp duty connected with registering a mortgage in favour of a bank, State Governments may initiate steps to abolish stamp duty on mortgage of agricultural land for obtaining loans from banks.

Unlike in urban areas, most land in rural areas is inherited and there are no title deeds. The original land records in the tehsil office are similar to a share depository and if a farmer has to pass book with an authenticated record of his land holding, the bank should accept the same as valid title for purposes of an equitable mortgage.

In States where the Agricultural Credit Operations and Miscellaneous provisions (Banks) Acts have been passed, bank loans should be secured through the mechanism of the declarations prescribed there under. States
which have not passed the above legislation may consider doing so. In the interim, such States may issue administrative orders that declarations made by borrowers on the Talwar Committee model for charging their lands to banks may be noted in the revenue records so that banks can lend against the same.

The value of security taken should be commensurate with the size of the loan and the tendency to ask for additional collateral by way of guarantors where the land has already been mortgaged should be discouraged.

In order to give operational flexibility to the lending banker, margin, security and collateral requirements should not be prescribed by RBI or any other agency and should be left to the discretion of the lending banker. For small loans upto Rs. 10,000, however, the existing guidelines may continue.

The requirement to insure all assets purchased through bank loans is an imposition causing financial hardship to borrowers. The decision as to the kind of insurance to be taken should be left to the borrowers subject to statutory requirements.

In order to inform farmers transparently of the amount and periodicity of the various fees and charges levied by banks, they should be given a statement of the facilities availed, separately indicating the feed, charges, etc. levied. This instructions regarding compounding of interest issued by RBI may be reiterated so as to ensure that these are invariably followed.
The internal supervision system of banks should provide for visits to a few service area villages and during such visits, inspecting officer should convene open meetings of farmers to assess their problems and difficulties. The CMDs of banks, during their tours to various States, should pay surprise visits to rural branches as this would provide top management with an idea of field level conditions.

A large portion of the branch manager’s time is spent on compiling returns of various descriptions for different agencies. There is an urgent need to rationalise the number of returns and a detailed exercise should immediately be undertaken by banks to reduce unnecessary paper work including elimination of ad hoc returns which very often require data already provided elsewhere.

Notwithstanding exceptions to the contrary, the morale of the rural cadre in commercial banks is low, commitment uneven and the sense of mission weak. This has to be addressed if rural lending is to be stepped up.

The Government of India stipulation for a compulsory rural posting may be done away with and posting of staff to rural centres should be based on institutional needs to be decided by the management of banks.
The performance appraisal system in vogue in commercial banks for rural branches should be revamped with a substantially reduced weightage for deposit mobilization. The appropriate indicators for performance measurement should be increase in outreach, measured by the number of new clients, volume of lending, assessed on the basis of incremental increase in the flow of credit and loan recovery as indicated by the volume of cash recoveries.

To bring about the desired behavioural change in rural lending and to strengthen the sense of mission of bank staff, a package of incentives encompassing foreign exposure, training in prestigious institutions within the country, weightage in promotion, posting to centre of choice, improvement in accommodation and educational facilities and corporate recognition of outstanding performance is recommended. These incentives are indicative and banks may evolve their own schemes for improving the morale of rural branch managers.

Bank Training institutions need to design fresh interventions shifting their focus from the present activity specific/project based training programmes to those emphasising borrower appraisal including techniques for assessing the needs of the rural household in a holistic way.
On the job exposure should be made a major training vehicle for new staff duly supplemented by formal training. The approach of Grameen Bank in making the trainees internalise the bank’s philosophy of rural lending and poverty alleviation may be adopted with appropriate modifications to suit the Indian context.

The non-farm sector has a large unutilised credit absorptive capacity. Rural households generally pursue a number of activities, both agricultural and non-agricultural, for supplementing their cash flows. These activities have modest working capital requirements and banks should design specific loan products for such activities by providing loans for short period upto three months, initially with weekly or fortnightly repayments. At the end of the period repeat loans for higher amounts and for longer periods could be offered depending on the repayment behaviour with inbuilt incentives by way of interest rebate on prompt payment.

Self Help Groups have proved effective intermediaries for the transmission of bank loans. Banks should give wide publicity to their preference for financing SHGs, sensitize regional heads and branch managers to the potential for good lending through this route, and provide training to branch managers in assessing the potential of SHGs and simplification of documents.
The Reserve Bank of India may direct banks to adopt the model set of documents prescribed by the Working Group on Non-Governmental Organisations and SHGs set up RBI in 1994 pertaining to agreements between members, loan formats, application forms, etc.

Upgradation of infrastructural facilities especially village market yards, rural roads and stable power supply will go a long way in expanding credit flow to the rural sector. The responsibility for maintaining public sector infrastructure should, where possible, be entrusted to local initiative.

The efficacy of credit depends on the extent and quality of integration between infrastructural facilities, technological innovations, research and extension support. Linkages should be forged and strengthened between extension worker, faculty of agricultural colleges, branch managers and Government departments at the local level through the various district fora.

There is a need for branch managers to have a broad knowledge of agriculture and related activities. At many places, farmers are confused about the type of inputs to be used for crops and can be misled by input dealers/other suppliers. Banks should work out a system by which, information regarding the package of recommended practices for the cultivation of crops specific to their areas is disseminated on a regular basis.
There should be greater involvement of panchayats in agricultural extension including provision of training facilities to volunteers and creation of user groups of farmers for acting as nodes for technology transfer. Wherever possible rural branches should link up their activities with Farmer’s Club initiated by NABARD.

Corporate offices of banks may quickly undertake a review of the functioning of their Hi-tech branches, especially to identify those which are not working well due to inadequate expertise and/or lack of demand. The Hi-tech branches of banks should also be used to disseminated information relating to agricultural operations and specifically for providing technical information regarding cultivation of high value crops.

The rescheduling of a loan instalment during times of natural calamities specifically in regard to a term loan should be based on the bank’s assessment and should not inhibit the bank from extending short-term production credit to the farmer.

In case of production credit, especially for farmers cultivating high value cash crops, a savings component should be built into the loan product to provide cushion during times of distress. The saving loan linkage should be encouraged by offering a finer rate on the loan.
Timeliness and adequacy of credit are critical to increasing the credit flow to agriculture. Small loans involve higher transaction and administrative costs. As a result, managers tend to look for larger loans where interest rates are deregulated, while banks seek to equalise the price differential by cross subsidisation. In effect therefore, regulated rates of interest operate as a barrier to the sanction of small loans. As had already been done in the case of co-operatives and RRBs, commercial banks should be free to fix the rates of interest for loans of all amounts.

The issue of subsidy linked loan programmes was examined by the Committee and it was observed that the loan portfolios of banks linked to subsidy were usually sub-standard with recoveries below 30 percent while in regard to loans sanctioned according to the business judgement of bankers recoveries were excellent. In the implementation of subsidy linked credit schemes, emphasis usually was on achievement of targets and the quality of lending as well as impact of such schemes was very poor.

A thorough review of existing systems is recommended as subsidy linked lending has proved unsuccessful and needs to be replaced by an alternative method. The committee believes that the rural poor are viable and borrowers can be directly targeted by commercial banks through NGO/SHG intermediation coupled with extended micro credit working capital facilities to the non farm sector. There is adequate experience in India, as well as
internationally that such lending can be done profitably on a large scale, given certain pre-conditions such as customer sensitive loan products, appraisal of projects consistent with assessment of borrowers, full discretion in selection therefore, improved methods of working and better follow-up after loan sanction. Bankers should be able to increase the access of credit to the poor consistent with productivity without dependence on subsidy.

With the progressive decrease in reserve requirements from 63 percent to 39 percent over the last five years, the lendable resources of banks have increased from 37 percent to 61 percent. The base in relation to which the target of 18 percent for agricultural lending is fixed has thus doubled apart from the normal increase in such base. In order, therefore, to achieve the 18 percent target banks have had to more than double their lending to agriculture during a period when agricultural production itself was growing at 2.1 per per annum. Furthermore, the adherence to the target for agricultural lending is calculated with reference to outstandings which decreases as a result of improved recoveries and when write-offs take place. Drawing conclusions on the flow of credit to agriculture only on this basis is somewhat misleading and unrealistic. The target for agricultural lending should instead be based on the flow of credit through preparation of Special Agricultural Credit Plans (SACPs), the objective of which should be to accelerate the flow as well as to substantially improve the quality of lending. The RBI may indicate annually
the expected increase in the flow of credit over the previous year on the basis of which SACPs would be prepared

There should be a substantial modification of the Service Area Approach (SAA) so as to provide borrowers a choice of banks as well as bankers a larger area of operation. Specifically, borrowers should be free to approach any branch of a commercial bank for credit and it would be for the latter to determine whether or not to do business with the borrower. Banks should be free to operate outside their service area and the responsibility of a particular branch for the credit requirements for a specific village should continue to be made in such a manner that every village is linked to a bank branch for its credit needs. Subject to the limitation above, changes in service area where necessary should be decided through mutual consultations amongst banks at the local level and RBI approval dispensed with.

The agenda for discussions at the various fora created under the Service Area Approach viz. BLBC, DCC and the SLBC should be radically changed. There should be a shift from discussion on service area plans and allocation of targets to providing a forum for greater dialogue between banks and government agencies on matters concerning area development, implementation of new schemes, impact evaluation of technology absorption, identification of fresh schemes for credit dispensation.
About 20 percent of lands cultivated at present are by oral tenants. If such tenants are brought within the purview of the banking system, there would be overall gains in income for the tenant farmers and agricultural productivity. A review of Land Tenancy Acts may be undertaken so as to permit renting of land without the owner losing property rights.
Conclusion

Despite several improvements and exceptional progress that the scheme has made in issuing KCCs after its introduction, there are still many challenges, which have to be overcome if the scheme has to meet its intended objective of facilitating access to short-term credit to all farmers in the district. The erstwhile deadline of issuing KCCs to all eligible farmers in the districts has already been missed. The challenge assumes further significance in the agricultural credit system by setting a target of doubling the supply of rural credit within three years.

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 three categories. These are i) Expanding coverage under the KCC scheme, ii) Streamlining legal and institutional hurdles, iii) Maintaining sustainability and long-term viability of the scheme.

The analysis shows that there are several hindrances in the scheme, which have to be handled on a priority basis. These area important for the scheme to establish superiority of service over the traditional mode of delivering short-term credit, which has been in existence in the past. The study calls for simplifying the process of getting a KCC, extending the facility
of cheques to all borrowers, granting freedom and allowing unlimited transactions with in credit limits, abolishing seasonal limits, simplifying the repayment procedure further, making the system of incentives and rewards more effective, providing full coverage of both life and crop insurance.

Streamlining legal and institutional hurdles means that issues related to minimum credit limits, margins and security, treatment of land tenancy, collateral and incorporating essential consumption requirements of farm households in fixing maximum credit limit need to be dealt with on a priority basis.

For maintaining long-term viability of the scheme, issues associated with maximum credit limits and lending rates are critical. The past experience suggests one of the reasons for defaults has been under financing, thus both the criteria that are used to fix credit limits as well the weights assigned to them are somehow not adequate and do not reflect the reality and must be examined afresh. On interest rates the efforts should be continued to make the operations of banks 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 Indian agriculture more competitive and profitable profession. Only an efficient and competitive agriculture will be able to sustain the long-term viability of these operations.
Hence special care has to be taken to ensure that steps like these do not threaten the long-term viability of these initiatives on facilitating access to short term credit for the farmers.
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Correlation Matrix has 4 rows and 4 columns.

<table>
<thead>
<tr>
<th></th>
<th>TC</th>
<th>COC</th>
<th>CL</th>
<th>LAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>TC</td>
<td>1.0000</td>
<td>0.5714</td>
<td>0.1428</td>
<td>0.2856</td>
</tr>
<tr>
<td>COC</td>
<td>0.5714</td>
<td>1.0000</td>
<td>0.3429</td>
<td>0.6581</td>
</tr>
<tr>
<td>CL</td>
<td>0.1428</td>
<td>0.3429</td>
<td>1.0000</td>
<td>0.4578</td>
</tr>
<tr>
<td>LAC</td>
<td>0.2856</td>
<td>0.6581</td>
<td>0.4578</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Step-wise regression results

**Step – I**

OLS regression Expl. Variable(s) = COC

Dep. var. = TC  Mean = 226550 , S.D.= 24.2774830E-01

Model size: Observations = 1876, Parameters = 2, Deg.Fr.= 1874

Residuals: Sum of squares= .4408017005E-03, Std.Dev.= .00577

Fit: R-squared= .674568, Adjusted R-squared = .61478

Model test: F[ 1, 1874] = 60.51, Prob value = .00000

Diagnostic: Log-L = 41.6288, Restricted(b=0) Log-L = 20.5691
**Step – II**

OLS regression Expl. Variable(s) = COC, CL

Dep. var. = TC  
Mean = 226550 , S.D.= 24.2774830E-01

Model size: Observations = 1876, Parameters = 2, Deg.Fr.= 1874

Residuals: Sum of squares= .4408017005E-03, Std.Dev.= .00577

Fit: R-squared= .751234, Adjusted R-squared = .72238

Model test: F[ 2, 1874] = 67.45, Prob value = .00000

Diagnostic: Log-L = 45.7598, Restricted(b=0) Log-L = 23.5476


---

**Step – III**

OLS regression Expl. Variable(s) = COC, CL, LAC

Dep. var. = TC  
Mean = 226550 , S.D.= 24.2774830E-01

Model size: Observations = 1876, Parameters = 2, Deg.Fr.= 1874

Residuals: Sum of squares= .4408017005E-03, Std.Dev.= .00577

Fit: R-squared= .782376, Adjusted R-squared = .76595

Model test: F[ 3, 1874] = 76.26, Prob value = .00000

Diagnostic: Log-L = 52.9871, Restricted(b=0) Log-L = 23.5476

IMPACT OF THE KISAN CREDIT CARD SCHEME ON THE FARMERS IN KANYAKUMARI DISTRICT - A STUDY

INTERVIEW SCHEDULE

I. Personal Particulars

1. Name of Head of Household :
2. House Number and Name if any :
3. Name of Village :
4. Name of Block :

II. Education Particulars:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name</th>
<th>Age (In years)</th>
<th>Sex Male/Female</th>
<th>Relation to Head of Household</th>
<th>Educational status (Use code)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CODE : A - illiterate         B - Passed Class V
       C - Class VIII passed     D - Class X passed
       E – Passed Class XII      F – Graduate & Above

1. Do you Read Newspaper : Yes/No
2. status of children :
   (appropriate column to be ticked)

<table>
<thead>
<tr>
<th>Not going to school and working</th>
<th>Going to school and working</th>
<th>Going to school and not working</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Literacy status of the Adult :

<table>
<thead>
<tr>
<th>Illiterate</th>
<th>X passed</th>
<th>Graduate</th>
<th>Post Graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. School Facility:

<table>
<thead>
<tr>
<th>Schools available near</th>
<th>School available more than 3 kilometers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

III Income Particulars:

1. Average monthly income of household in rupees:

<table>
<thead>
<tr>
<th>Less than 1000</th>
<th>Rs.1001-Rs.2000</th>
<th>2001-3000</th>
<th>More than 3000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. How many persons are earning in your family:

IV Land & House Particulars:

1. Type of operational Holding Land:

<table>
<thead>
<tr>
<th>Owned</th>
<th>Tenant</th>
<th>Both Owned &amp; Tenant</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Whether there is any Land for construction Of House: Yes/No
3. Nature of Housing: Thatched/Concrete
4. Details of Household appliances:
5. Do you have health awareness programme: Yes/No
6. Do you know family planning programme: Yes/No

7. Details of Cattle Owned by you:

<table>
<thead>
<tr>
<th>SHEEP</th>
<th>No</th>
<th>Below 4</th>
<th>5 &amp; More</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COW</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. Sanitation Facilities:

<table>
<thead>
<tr>
<th>Area</th>
<th>Group latrine with irregular water supply</th>
<th>Group latrine with regular water supply</th>
<th>Private latrine</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Bonded Labour</th>
<th>Female &amp; Child labour</th>
<th>Adults only</th>
<th>males</th>
<th>others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

10. Details of Customer durables in your House

<table>
<thead>
<tr>
<th>TV</th>
<th>Fan</th>
<th>Radio</th>
<th>Computer</th>
<th>Cooker</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. Type of indebtedness

<table>
<thead>
<tr>
<th>For consumption purpose from informal source</th>
<th>For production purpose from informal source</th>
<th>For other purpose from informal source</th>
<th>Borrowing only from institutional agencies</th>
<th>No indebtedness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. Medical Facilities available

<table>
<thead>
<tr>
<th>Near</th>
<th>With in 2 kilometers</th>
<th>More than 2 Kilometers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. **Agricultural Allied Activities:**
   1. Centrifugal pump sets at 5 H.P.
   2. Type Cart
   3. Power Sprayer with in one bicycle

14. Does the household own any of the following:
   1. Sewing Machine
   2. Clock/watch
   3. Sofa set
   4. Fan
   5. Radio /Transistor
   6. Refrigerator
   7. VCR / VCP
   8. Bicycle
   9. Motorcycle / Scooter
   10. Cooking Gas

15. What is the approximate total value of these household assets?

16. If you own animals, what is the value of your animal’s assets? (Investigator please probe: Cow, Buffalo, Goat, Sheep, poultry etc...)

17. If you own any machines and equipment’s, what is the total approximate value?

   (Investigator please probe: Tractors, Tillers, Lorry, Van, Motor, Pump set, Diesel engine Winnowing, Machine, Bullock cart, Cycle, Fish culture, Equipment, Moped, Bike, Power sprayer, Sugarcane crusher, Poultry, Equipment, Sericulture equipment, Dryer etc...)

**V Land Assets**

18. Does your household own any agricultural land?
19. If yes, what is the type of land?
20. What is the size of land?
21. What is the approximate value of the land?
22. Do you cultivate land as tenant?
23. If yes, what is the extent?
24. What is your annual income?
25. How many other earning members are there in your family?
26. What is annual income of your family?

**VI** Borrowing

27. Have you ever borrowed money from any external source?
28. If yes, from whom you borrowed?
29. Commercial Bank
   - PACB
   - PARDB
   - UCB
   - DCCB
   - Employee’s thrift society
   - Housing co-operatives
   - Industrial Co-operative Bank
   - Marketing society
   - RRB

30. Cultivation expenses
   - Purchase of cattle
   - Purchase of other milk animals
   - Purchase of agricultural machineries
   - Land development purposes
   - Construction of farm houses
   - Improved methods of irrigation
   - Horticulture / plantation purposes
   - Redemption of prior purpose
   - Production purpose
   - Marketing purpose
   - Purchase of machineries
   - Re-lending

31. According to you, which are your most important borrowing needs?
VII Agricultural Expenses

(Please mention the four most important needs in order of importance)

Cultivation
Purchase of cattle
Purchase of milk animals
Purchase of agricultural machineries
Land development purpose
Construction of farm houses
Improved methods of irrigation
Horticulture / plantation purposes

32. According to you, which are the most helpful lending institutions.
(Mention three institution as per the order of importance in institution sources and three in non-institution sources.)

Commercial Bank
PACB
PARDB
UCB
DCCB
Employee’s thrift society
Housing co-operatives
Industrial Co-operative Bank
Marketing society
RR

VIII Debt

33. What is the extent of your outstanding debt?

Agriculture
Non-agriculture
Consumption
Total Debt.
Out of this, debt from Co-ops.
34. What is your duration of participation? (In years)

Cooperatives
Panchayat
Traditional Panchayat
Policy party
NGOs
Religious organizations
Caste organizations
Farmers association
Youth clubs
Mahila mandals
Self help groups
Educational institution
Govt. bodies
Any others (specify)

IX Awareness on Kisan credit scheme

35. i) What is your present place of stay? :
ii) How many years have you been staying in the present place? :
iii) Did you migrate to your present place of stay from some where else? : Yes/No
iv) If yes, from where? Remote Village/Village/Town :
v) If yes how many years back? :
vi) If yes, Why? :
a. To get employment : Yes/No
b. To get a better job than the earlier one : Yes/No
c. To have a better standard of living : Yes/No
d. To enjoy the facilities of new place : Yes/No
e. Better education for children : Yes/No
f. Better medical facilities : Yes/No
g. To be with relatives : Yes/No
h. To be with friends : Yes/No
i. Better economic opportunities : Yes/No
j. Better social relations : Yes/No

vii) Do you have many friends in your place of stay? : Yes/No
viii) Do you have many relatives in your place of stay? : Yes/No
ix) Do you know the name of your neighbours? If yes, How many numbers that you know : Yes/No
x) Do you know the family size of your neighbours? If yes, the size of the number of families that you know? : Yes/No

xi) Do you know the occupation of your nearest neighbours? If yes, how many neighbours you know? (Mention the number) : Yes/No
xii) If you have a sudden family crisis (e.g. health, death in the family) will you call your neighbours no matter what time of the day/night? : Yes/No
xiii) When you have an urgent financial need do you go to your neighbours? : Yes/No
xiv) When you go out of town/village do you leave your house in care of your neighbour? : Yes/No
xv) Do you like if your neighbour or his family comes to your house frequently? : Yes/No
xvi) Does your wife or your neighbours’s wife go to each other for urgent needs like borrowing, small amount of sugar, salt, spices etc.,? : Yes/No
xvii) Do both the families go for shopping or go to temple together : Yes/No
xviii) At the time of festival do you exchange sweets and savouries with your neighbours? : Yes/No
xix) Do you have any dispute with your neighbours regarding house site or agricultural land?  : Yes/No
xx) Do you have lots of difference of opinion with your friends and neighbours on social issues like caste, religion etc?  : Yes/No
xxi) Do you have lots of difference of opinion with your friends and neighbours on political issues  : Yes/No
xxii) When you were a student in school/ college did you have many friends?  : Yes/No
xxiii) If yes, how many?  :
xxiv) How many friends do you have in your neighbourhood now :
xxv) Do you approve when your children go and play with other children in the neighbourhood?  : Yes/No
xxvi) Do you feel safer in your present place of stay your earlier place of stay?  : Yes/No

36. Do you know any cooperative society in your locality?  : Yes/No
37. If yes, what are they?

PACB
LAMPS
FSS
PARDB
UCB
DCCB
Thrift society
Consumer Cooperatives
Marketing Cooperatives
Dairy Cooperatives
Weavers Cooperatives
Housing Cooperatives
Any others (specify)

38. Are you a member of any KISAN Credit Scheme : Yes/No
39. Have you read recently anything About KISAN Credit scheme activity in the newspaper : Yes/No
40. Have you listened recently anything about KISAN Credit Scheme : 
41. Do you discuss with your friends/family Members about KISAN Credit Scheme :
42. Have Govt. / Bank officials / leaders contacted You to explain about KISAN Credit scheme : Yes/No
43. Have any one approached you to become a member Of a KISAN Credit Scheme : Yes/No
44. Have you withdrawn your membership from any issuing banks? : Yes/No

51. If yes, why :

Default
Poor quality of service
Not getting needed services in time
Not getting services adequately
Availability of better services from others
Don’t need the services
Local politics
Any others (specify)

52. According to you, which is the most important reason? Gives in detail :