CHAPTER – I

INTRODUCTION & DESIGN OF THE STUDY

1.1 Introduction

Agriculture continues to be an important sector of the economy with 18 percent share in the Gross Domestic Product (GDP), provides employment to nearly 2/3rd of the work force in the country. Agriculture at present has undergone a significant shift from the subsistence level of production to market oriented production. The much needed food security is reflected in the abundant buffer stocks of grains build up out of the surplus production. Diversification and commercialization in agriculture have resulted in shifting of cropping pattern from traditional crops to high-value crops and new markets.

Institutional credit, which played a very important role in the development of agricultural sector was instrumental in development of Indian agriculture. It showed all signs of resilience to natural shocks like droughts and famines. In fact, credit acted as a means to provide control over resources to enable the farmers to acquire the required capital for increasing agricultural production. It enabled the farmer to go for short-term credit for purchase of inputs and other services and the long-term credit for investment purposes.
Thus, credit played an important role by facilitating technological upgradation and commercialization of agriculture. The success of Green Revolution in Indian agriculture to a large extent laid on institutional credit support to agricultural sector in terms of expansion in inputs like fertilizers, irrigation, private capital formation, etc.

1.2 Agricultural Credit Delivery System

Institutional credit dispensation system for agriculture in India has only a brief history starting with the setting up of cooperative credit societies in 1904. However, coverage of these societies to meet the credit requirement was so limited in certain pockets and negligible that almost entire credit requirement of the farming community was met by informal money lending sources till 1950s. The recommendations of All India Rural Credit Survey Committee (1951-54) has laid the foundation of the institutional framework for establishing a sound credit delivery system for financing agriculture and allied activities. A major shift in the short-term credit product was the introduction of crop loan system. An action programme in 1963 was laid down by the Central Government for implementation by the State Government. Till the end of the 1960s, to be more specific, up to the social control introduced on the commercial banks, cooperative structure was
assumed the sole responsibility of providing production credit to the farmers. The entry of commercial banks with bank nationalization in 1969 and the emergence of Regional Rural Banks (RRBs) in 1975 gave wider reach to the short-term credit delivery system in the country. The entry of commercial banks and RRBs, brought in a sea change in the financing pattern of the farm sector as the credit of the Indian farmers were increasingly met by the institutional sources. However, such a quantitative improvement in the coverage could not be achieved in the case of quality of credit products provided by the banks especially to the priority sector. Though several suggestions for provision of credit through single source, including by The National Commission for Agriculture, the basic characteristic of the credit dispensation system in India remained as multi product and multi agency approach especially in 1970 and 1980s. The credit product was targeted to cater to the stipulated and specific production investment needs within that specific sector activity, presuming that the economic function of that activity is independent of other economic activity of the same farm enterprises.

Under the system each farmer had the flexibility to approach an agency of his choice for an investment as per the standard stipulations laid down by the agency. Again, component of investment credit or production credit would exclude the maintenance cost as it presumed that maintenance is a recurring
cost which the farm enterprises can meet out of its operational surplus. It was also presumed that the credit need (investment/production) of the firm and that of the investor (consumption) are independent and mixing up of the same will adversely affect the economics of the firm; hence, no effort was made to cover the later by the institutional credit along with the former. Another set of explanation is that whether surplus income generated from the investment within the economic life of the investment is sufficient to repay the debt burden of that particular investment.¹

The functioning of multi credit product approach has a number of intrinsic and structural rigidities, making most of the products inefficient and reducing its utility to sub-optimal level. Very often the line of credit was made supplier friendly so as to make its operation to the minimum. Production credit, for example, as stipulated by Date Committee and further modified by Kalia Committee was available on crop season basis. Major economic impact of the system was high procedural formalities in the system and the lack of timeliness in loan sanction and disbursement and inadequacy of the loan amount. Quiet often, farmer has to approach various agencies;

with different package of credit, with different interest rate and with differing and cumbersome sanction procedures and norms to meet his entire credit needs and economic cost of his time spend on this account was neglected. The complicated credit environment created by the multiple credit delivery systems in rural areas duplicated workload increasing the social cost associated with it. Absence of maintenance package in the individual credit product often made farm investment infructuous for the remaining economic life for want of smell repairs, creating conditions for perpetual indebtedness for them.

The structure of the Agricultural Credit Delivery System (ACDS) in the country, evolved over the years, comprises of institutions in the formal and informal sectors. In the formal sector, a multi-agency approach has been adopted and includes Co-operatives, Commercial Banks (public and private sectors) and the Regional Rural Banks. The informal sector operates through non-institutional sources like the moneylenders, traders, merchants, commission agents, friends and relatives, etc.
1.3 Agricultural Credit Delivery Strategy

The credit strategy for agricultural development in the country was founded on the philosophy of “growth with equity”. Various measures like administered interest rates, setting targets of lending to the agriculture sector, coupled with availability of refinance to the banks at softer terms had helped in increasing the flow of credit to the agriculture sector. Stipulating targets to the banks ensured access of credit to marginal and small farmers. Loans to this group were made available at softer terms, e.g., lower down payment, longer maturity period and lower rates of interest.

1.4 Multi-Product and Multi-Agency Approach

The Agricultural Credit Delivery System (ACDS), as it shaped up during 1970s and 80s was characterized, by multi-product and multi-agency approach (MPMAA)\(^2\). Under this arrangement, the farmer entrepreneur would have the flexibility to approach any of the bank branches in its area for credit support either for farm investments or for purchase of farm inputs, depending on his choice of credit needs. Moreover, each credit product was targeted to

\(^2\) Reserve Bank of India (various volumes): Report of Trend and Banking, RBI Mumbai.
cater to the stipulated and specific production/ investment needs within that specific sector/ activity. Again, inadequacy of loan amount was also reported to be common, more due to rigidity in the scale of finance. Moreover, it didn’t allow beneficiary farmer the necessary flexibility in utilization of the loan amount. It also involved frequent shuttling by the farmers to bank branches. Moreover, the farmer, needing production and investment credit had to approach different agencies with different packages of credit, including different rates of interest, eligibility and sanctioning norms, etc. Absence of maintenance package in the individual credit product often made farm investments infructuous for the remaining economic life for want of small repairs, creating conditions for perpetual indebtedness for them. Besides, high consumption-income gap, particularly among the bottom quartile segments of population perpetuated mis-utilisation of credit, more towards consumption purposes.
1.5 Kisan Credit Cards

Recognizing the limitations of multi-credit product and multiagency approach, a stronger view emerged among policy makers, particularly since the early nineties, on the need for an ‘integrated credit’ product for accelerating sector/area/activity specific development process. The introduction of a new credit product called ‘Kisan Credit Card’ (KCC) in 1998-99 with three different sub-limits viz. production, assets maintenance and consumption needs is a step in this direction. This brings integration into the multi-credit product system by offering farm entrepreneurs a single line of credit through a single window for multiple purposes. These include acquisition of farm assets, maintenance thereof and meeting families intervening consumption needs. The Kisan Credit Card Scheme was a step towards facilitating the access to short-term credit for the borrowers from the formal financial institutions. The scheme was conceived as a uniform credit delivery mechanism, which aimed at provision of adequate and timely supply of short-term credit to the farmers to meet their crop production requirements. The KCC instrument would allow farmers to purchase agriculture inputs such as seeds, fertilizers, pesticides and also allow them to withdraw some cash for meeting their other crop production related requirements.
Under the old system short-term credit was disbursed either through a demand loan or through a system of loans known as crop cash credit mechanism. In the demand-based system, loans were granted on crop specific basis against execution of fresh documents each season. The sub limit was fully used up only credits were permitted, but withdrawals were not allowed. Withdrawals under these limits were permitted either in cash through debit slips or through banker’s cheques for the kind component. As a result the withdrawals were usually bunched at the beginning of crop season and repayments at the end of the season when farmers were able to generate cash after harvesting and marketing their produce.

Since then, the scheme of KCC is under implementation by State Cooperative Banks (SCBs) through DCCBs and PACS as also the Regional Rural Banks (RRBs) and Commercial Banks (CBs) under the aegis of NABARD. As on 31 March 2009, 828.7 lakh farmers were issued KCCs by various banks. Co-operative banks have the largest share (62percent), followed by commercial banks (30percent) and RRBs (8percent). The performance in the implementation of the KCC scheme has been impressive in the states of Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and Uttarakhand. A personal accident insurance scheme has also been introduced from the year 2001-02
for all KCC holders against accidental death/permanent disability. The scheme has become popular both amongst farmers and bankers.

However, experience over preceding few decades suggested that multi-credit product approach (MCPA) has a number of systemic and structural rigidities, turning most of the credit products inefficient and sub-optimal. The introduction of an innovative credit product called Kisan Credit Card (KCC) in 1998-99 was essentially designed by NABARD as an integrated product to address the challenge. In order to evaluate the impact of the implementation of this innovative product after almost a decade of implementation, it was felt by the NABARD to (i) identify 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, coverage of different categories of farmers and its overall impact on flow of ground level credit (GLC).

NABARD conducted a study covering 14 States adopting multistage stratified sampling design. The selected states include Odisha and West Bengal from the eastern region, Maharashtra and Gujarat from the western region Rajasthan and Madhya Pradesh from the central region, Punjab, Haryana, Himachal Pradesh and Uttar Pradesh from the northern region,
Andhra Pradesh, Karnataka and Kerala from the southern region and Assam from the North-eastern region.

Agriculture is the backbone of the Indian economy, with nearly 67 percent of the population of the country continuing to depend on it either directly or indirectly for their livelihood. Considering the dominant role of the sector and the importance of credit as an input, a multi-agency approach has been adopted by the Reserve Bank of India (RBI) for ensuring credit flow to the sector. In spite of several improvements in the delivery systems that have been undertaken over time, making institutional credit available to a larger number of farmers, particularly small and marginal farmers, continues to be a challenge to the banking industry. Financing for agriculture has been a gigantic task for banks, given the enormity of the credit requirements on the one hand and vagaries of nature on the other. Both RBI and National Bank for Agriculture and Rural Development (NABARD) have taken several initiatives for simplification of systems and procedures and designing of innovative credit delivery products in dispensation of agricultural credit. However, the traditional system of procedures, documentation etc. adopted by the banking system had rendered availment of credit by the farmers rather cumbersome. Provision of
timely, adequate and hassle-free credit to farmers continues to be one of the major tasks for banks in India.

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The Government has adopted the Kisan Credit Card Scheme formulated by NABARD which aims at provision of adequate and timely credit support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible and cost effective manner. The scheme is being implemented through the district central cooperative banks and the primary agricultural cooperative banks.

As on 31.03.2003, the primary agricultural cooperative banks in Tamil Nadu have issued Kisan Credit Cards to 11,19,531 farmers and credit limit to the extent of 814.74 crores has been sanctioned. Further, Kisan Credit Card holders are covered by the Personal Accident Insurance Scheme. The premium for the insurance scheme has to be shared by the card issuing bank and the card holders in the ratio 2:1.
Under the earlier system, disbursal of short-term credit to agriculture was mostly through demand loans, but some banks had adopted system similar to that of cash credit, the facilities were, however, given for the period of one year or less, which necessitated execution of fresh documents each season. The withdrawals under both the systems were permitted largely through debit vouchers or through withdrawals from the saving accounts where the cash components were credited. As far the ‘kind component’ is concerned, payments were made through bankers’ cheques. As a result the withdrawals were usually bunched at the beginning of the crop season and the repayments at the end of season, when the farmers were able to generate cash after harvesting and marketing their produce.

The main weakness of such short term credit delivery system were:

i. a lot of paper work was required on account of filing separate applications in each season;

ii. as the facility was largely available as loan but not as cash credit, the system did not allow the borrowers to credit funds
into their accounts, in case they received funds in advance and there was no scope to withdraw from the account as and when required;

iii. payments were effected directly to the input suppliers of the bank’s choice, thus leaving a scope for affecting the quality of inputs; etc.

Given the above circumstance, the introduction of KCC has brought in several advantages over the traditional system of loan disbursement. Some of the advantages are as under.

i. the card can be used like an ordinary credit card, thus giving a feeling to the farmers that there is an underlying guarantee of getting loan from the bank as long as the earlier loan is repaid.

ii. the facility is given for three to five years instead of one year, thus reducing the procedural delays.

iii. There is flexibility in operation of the facility in terms of number of withdrawals and in repayment of loan.

iv. the system on its own allows the borrowers to get their loans rescheduled in case of natural calamities, etc. and
v. certain new features, such as, personal insurance for all the card holders ranging from Rs.25,000/- to Rs.50,000/- against permanent disability or accidental death, an effective measure for risk mitigation, were also incorporated in the scheme.

1.6 Statement of the Problem

The Kisan Credit Card (KCC) scheme, which was introduced in 1998-99, is a step towards facilitating farmers’ access to short-term credit from the formal financial institutions. Compared to the old system of short-term credit delivery the new system of short-term credit disbursement through KCCs has several benefits.

The card has predetermined limit fixed on the basis of operational land holding, cropping pattern and scale of production credit requirement. It is valid for three years and has provisions such as revolving cash credit facility involving any number of withdrawals and repayments within the prescribed limit. Further it has features like flexibility for repayment of loan, rescheduling of loans in case of damage to crops due to natural calamity and provisions for personal insurance against permanent disability or accidental death.
Given the remarkable progress that the scheme has made after its introduction in terms of coverage of farmers, it is important to examine whether the scheme is meeting its intended objectives or not. The relevant questions that arise in the context of the scheme are the following. How simple and effective is KCC in reducing hassles that farmers were facing before the launching of cards? Is there an assured and timely availability of production credit? How is the annual review process carried? Is it fair and rewards those who make timely payments? Has the scheme benefited marginal and small farmers? How is the recovery performance of loans? What are the key weaknesses in the scheme and how these weaknesses can be removed so that the scheme meets its intended objectives?

To answer these questions, a detailed study was undertaken Indian to analyze the impact of the scheme on borrowers who have been issued KCCs. In this respect, a detailed district-wide study of the scheme can help in identifying weaknesses and suggest suitable steps to improve / modify the scheme and make corrections as the system expands.
1.7 Significance of the Study

The Kisan Credit Card (KCC) scheme was introduced in 1998-99 as a means to facilitate farmers’ access to short-term from the formal financial sector. Compared to the old system of short-term credit delivery this innovation in short-term credit provision was expected to generate several benefits to both farmers as well as banks.

The main purpose of the study was to make an objective appraisal and identify deficiencies so that the same could be overcome to make the system more effective. Detailed analysis carried out in the study using both primary as well as secondary data and also the qualitative assessment demonstrates that the scheme has made a significant impact on the availability of short-term credit from formal sources at the farm level. At the same time the study also reveals that despite several improvements and exceptional progress that the scheme has made after its introduction many challenges remain. These challenges 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 in true sense. The study, therefore, suggests reforms in - (i) expanding coverage under the KCC scheme (ii) streamlining legal and
institutional hurdles, and (iii) maintaining sustainability and long-term viability of the scheme.

1.8 Objectives of the Study

The major objective of the study is to address the problems / constraints and suggest remedial measures for effective implementation and quick coverage of KCCs. The specific objectives of the study are

1) To critically review the progress of the KCC Scheme since its inception with focus on
   a) bottlenecks / constraints in the implementation of the scheme.
   b) how the issuance of the KCC has helped in accelerating the institutional credit flow.
   c) improvement on productivity and efficiency at the field level of the KCC holder over of the non-KCC holders

2) To quantitatively estimate
   The extent of adequacy or otherwise in the sanction of the credit limit and the disbursement thereof - bank-wise, farmer category-wise, terms structure-wise (ST, MT, etc.) and activity-wise.

3) To examine the extent of mis-utilization of the KCC (such as mortgaging it to the money lender, etc.)
4) To assess the nature (small / marginal farmers, tenant farmers, etc. both borrowers and non-borrowers) and extent of exclusion from the issuance of KCC;

5) To study the extent of exclusion as well as under-utilisation of the insurance coverage under the KCC scheme.

6) To suggest measures towards modification of the Scheme such as conversion of KCC into bio-metric card, to ensure inclusion of excluded farmers, to eliminate mis-utilisation / disuse of KCC and to attain complete insurance coverage.

1.9 Sample Design and Methodology

The study is based on both primary as well as secondary data. The secondary information has been collected from various published and unpublished sources of NABARD, SLBC, controlling banks and sample branches implementing the scheme. These data has been used to examine progress made under the scheme since its inception, loans advanced, coverage of beneficiaries and distribution of cards to choose representative sample size, keeping in view the spread and coverage. To collect data from the borrowers a multistage stratified sampling design on the lines delineated was adopted. The survey of the borrowers was carried out in Kanyakumari District on the basis of total number of cards issued upto March 2011. Subsequently, banks,
branches and types of farmers formed three stages of sample selection within the selected district. Depending upon the size and number of KCC holders, farmers from each bank branch was selected using simple random sampling with due representation to various types of farmers according to their land-holding size (land operated).

Keeping in view the distribution of financial institutions in view the same branches were drawn in such a way that the banking infrastructure was truly represented. The total number of branches selected within the district was further distributed according to the type of financial institution (commercial bank and cooperative bank as per distribution of KCCs issued by these institutions. Following the framework discussed above a total of 52 bank branches and 500 farmers were selected from the four taluks of Kanyakumari District.

An independent borrower was the ultimate sampling unit for the selection of sample KCC holders, detailed information on the number of farmers with a selected branch caters to and the number of KCCs issued by the branch was collected. From the district a sample of few farmers who did not have KCC but availed credit or did not have KCC and not availed credit or combined of above two were also
selected to have a comparative analysis. Sample farmers were further classified into tenant, marginal, small and other farmers on the basis of size of their operational holding to get an objective view for the impact of the scheme according to various types of land holding. The data was collected with the help of pre-tested questionnaires. The type of data collected with these questionnaires included information on the following variables.

i. Bank questionnaire - Branch profile, number of KCC issued, staffing pattern, short-term credit disbursed by the branch, operational issues and difficulties associated with the implementation of the scheme and areas for further implementation.

ii. Household questionnaire - Social groups, household size, sources of income, details of area owned and operated, household assets, cropping pattern, allied agriculture activities, cost of purchase and other inputs used at the farm, consumption expenditure, pattern of borrowings, sources of borrowings, issues related with KCC, credit limits, operational difficulties associated with the use of KCC and suggestions for further improvement of the scheme.
1.10 Selection of Banks and Sample Farmers

Table 1.1  
Selection of Banks and Sample Farmers

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<th>Vilavan code</th>
<th>Kalkulam</th>
<th>Thovalai</th>
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1.11 Data Collection and Analysis

Primary data was supported by secondary data for the study. Data on the progress, operation aspects and repayment performance under the scheme, etc., were collected from the financing branches covered under the study. Bankers were also interviewed to assess the operational advantages and disadvantages of the scheme. Interviews were sought for regarding methods followed in selection of the farmers, fixation of credit limit, security norms, coverage of weaker section and documentation. Further, other information like reporting system followed, measures taken to popularize the scheme, non-economic benefit received by the bankers due to the scheme etc. was gathered.
Secondary data was also collected from the controlling offices of financing bank branches samples, Lead Bank, Concerned Regional Offices, Production Credit Department at Regional Offices, Head Offices, etc.

1.12 Factors Determining Credit Requirements

Given the significance of credit limits, their level, factors determining these limits, flexibility of withdrawals and repayments within these limits are the main issues on which the analysis is focused in subsequent chapters. Further, the study has examined the average credit limits for various categories of farmers with the objective of finding out whether farmers are satisfied with their credit limits. If not, do they borrow from informal sources to meet shortfalls in their requirements? Are they also satisfied with the criteria that are applied to the determination of their limits? If not, what should be the credit limits and how they need to be determined? More precisely, what are the additional factors/components that they would like to be included along with proportionate weights assigned for the determination of credit limits?
1.13 Variables of the Study

The study has attempted to test the significance of various variables (scale of finance, cost of cultivation, consumption expenditure and requirement for allied and Non-Farm Sectors (NFS) activities on total credit limit through a regression model in which the dependent variable is credit requirement. Alternatively, these three variables explain how much variation in credit requirements.

1.14 Period of the Study

The reference year for the study was April 2010 - March 2011. All the cost on farm operation and benefits of the sample farmers were collected at reference year prices. All the other costs associated with formalities of getting KCC and opportunity cost of time spend on that account etc. were collected at historical prices and converted into reference year prices wherever necessary at the recording stage itself.

1.15 Concepts and Methods of Measurement

Primary data and secondary data were tabulated and analyzed using statistical tools such as mean, standard deviation, percentage share, weighted average, growth rate, etc., to derive inferences. Economic benefits of KCC have been arrived at by estimating
production gain, price gain, actual interest saved on account of enhanced credit limit and reduced average loan outstanding (due to the flexibility in operation). Non-economic benefit of the KCC was assessed in terms of individual perceptions of the borrowers on the scheme as to its success and the level of satisfaction on the expectation on the scheme. Similarly the bank branches were also consulted of the advantage and benefits on the scheme in terms of reduced formalities, documentation, reporting etc.

Chapter Scheme

Chapter 1 Introduction Sample Design and Methodology

Chapter 2 Review of literature

Chapter 3 Review and progress of Kisan Credit Cards

Chapter 4 Implementation of Kisan Credit Card Scheme

Chapter 5 Effectiveness and Impact of Kisan Credit Cards and Cost of Credit.

Chapter 6 Kisan Credit Cards Issues and Constraints

Chapter 7 Findings, Suggestions and Conclusion.