CHAPTER 9
Summary and Recommendations

9.0 Introduction
This chapter has two sections. In section one a summary of previous chapters more particularly the observations on the implementation of KCC based on the field visit is presented. A comparison on the intended improvements/benefits in KCC and the current situations along with suggestions is also presented. Section two contains a discussion on the issues and recommendations for procedural changes in the implementation of KCC, for making KCC an electronic card and the need for revisiting some of the agricultural credit policies. A recommendation for issuing smart card KCC to small farmers on the basis of production credit groups is also being attempted.

SECTION I

9.1. Summary
Though food security has been attained, the country is currently facing crisis in the agricultural sector the development of which seem to have stagnated in the recent years. The capital formation and growth of agriculture sector has declined in the recent years. In this background, adoption of improved agricultural practices and modern methods of cultivation will play an important role in making agriculture viable and increasing farm income. Towards this end there is an urgent need for increasing the investments in agriculture. Since private capital is not adequate there is a need to consider more public investments.

The role of agricultural credit in enabling modern methods of cultivation is very critical. Demand for agricultural credit stems from the fact that the income flow is seasonal and invariably volatile. The working capital requirement for agriculture is unique in the sense that the expenses/costs are incurred continuously throughout a season whereas the sale proceeds are received only once at the end. The income levels from season to season have been uneven
and this volatility has resulted in poor savings at the level of the farmer. In view of this, if institutional credit is not available a farmer will be completely in the clutches of informal sources of finance. Further institutional credit has to be adequate failing which the benefit of low rate of interest will not accrue as the gap has to be filled by informal sources. It is for these reasons that the agricultural credit has received focused attention from the policy makers.

The credit delivery system for agriculture loans which was in vogue in the 80’s and 90’s had certain procedural inadequacies. This was because the lending procedures for crop loaning were developed in the early 60’s when the level of improved practices in agriculture was much low and the number of borrowers were less. At that point cooperatives were the leading purveyors of credit and it was important that credit was extended on such terms and conditions that it resulted in improved agricultural practices and that credit induced the consumption of fertilizers and High yielding variety of seeds. Currently, however, the average size of the operational holdings has become substantially small on account of iterative sub-division resulting in a larger number of small and marginal farmers. Also, the farmer has become adept in modern agricultural practices, makes full use of fertilizers and applies modern inputs in agriculture. The current level of usage of fertilizers shows that it is no more necessary to force the farmer on this issue and, thanks to availability of good extension services in agriculture, a farmer knows what he wants and credit need not direct him on these issues. As such, disbursing part of the loan in the farm of inputs and partly in cash is not relevant any more. Further, in the past, procedures for disbursement of credit were developed on the apprehension of possible misuse and/or diversification. The approach was to keep the loan related cash flows distinct from the household cash flows.

In today’s changed circumstances, what a farmer needs is the hassle free credit coupled with choice of not only sources of credit but also facility to choose among the input suppliers. What is important is to improve the credit delivery process and increase the outreach of credit particularly among small and marginal farmers. For this agricultural credit must be made hassle free, must be sufficient to meet the needs of improved agricultural practices, must be
available round the year and must be adequate so as to help in weaning the farmers from the clutches of moneylenders. Developing the scale of finance concept and making it a grass root approach by devolving the function to the District Level Technical Committee has partially solved the issue of adequacy of credit but not all of it.

The procedural lacunae that had set in over the period of time in the credit delivery system and the very slow growth in credit disbursement in the 90’s was the reason for developing the Kisan Credit Card (KCC) which was introduced during 1998-99. The KCC scheme, in its current shape includes (a) financing the short-term needs of the farmers for carrying on the seasonal agricultural operations, purchase of agricultural inputs etc and (b) term loan for investment in agriculture and allied activities and (c) a reasonable amount of loan to the meet the consumption needs and other working capital needs in a flexible and cost effective manner. KCC is now well entrenched and, the bankers have a clear understanding of the scheme. As per extant guidelines all the eligible farmers\(^1\) should have been covered under KCC scheme by 30 September, 2009. The cumulative number of KCC issued as on 31\(^{st}\) March 2009 is placed at 8.47 Crore. It is estimated, by the researcher that about 4.33 Crore KCC may be currently operational. Both on account of the KCC and the thrust given under the doubling initiative the agriculture credit has been growing year after year. A comparative chart on KCC expected procedures and actual with suggestions (underlined) are given below:
Table 9.1

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<th>As per RBI/NABARD Guidelines</th>
<th>As observed during the field visit</th>
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<tr>
<td>Banks may ensure that eligible farmers are provided with a Kisan Credit Card and a pass book or a card-cum-pass book.</td>
<td>This is not an electronic/plastic card. It is an ID card and a pass book for cash credit account. Some banks have issued ATM cards. The issue of ATM card is restricted to a few farmers. Steps must be taken for making it a credit card. “Eligibility” has been defined by the banks in terms of ownership of land and track record in operating the account. New borrowers will have to produce No Due Certificate. This could be the reason for the outreach among small and marginal farmer. Banks are not taking adequate efforts to cover all the farmers in the area with KCC. Branches in a service area have no coordination among themselves to ensure that all the farmers are covered.</td>
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<td>Banks may offer a revolving cash credit facility allowing any number of draws and repayments within the sanctioned credit limit should be available to the card holder.</td>
<td>Most of the banks have not issued cheque books and KCC accounts are not being operated as cash credit. Accounts operate like a demand loan. In majority of the cases studied it was seen that there is only one repayment in a year. Banks, in the case of some crops, disburse the loan amount in installments as stipulated by internal circulars. The interest and other debits in the account happen regularly. In case of sugar cane crop the factory makes one or more credits into the account. Generally the accounts are operated in traditional lines of loan account and not like cash credit account. It is observed that farmers do not have daily or periodical cash flow to enable them to use the account as Cash Credit. As such cash credit may not be appropriate mode for crop loans, more particularly small loans. This aspect needs further study.</td>
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A Personal Accident Insurance Cover up to Rs. 50000 may be offered to all Kisan Credit Card holders to cover accidental death/permanent disability under a Master Policy at a nominal premium of Rs.15/- for a one year policy and Rs.45/- for a three year policy is made available to the card holder. The financing bank is to bear two-third of the above premium amount.

This is being adhered to. But the farmers say that it is not really effective. Many farmers decline the PAIS.

Banks offer their own insurance product free of cost.

This is a social aspect and may be taken outside the KCC fold.

KCC must cover:

1. Entire production credit requirements of the farmer for a full year
2. Credit needs for allied activities related to agriculture to be undertaken by him/her and
3. Certain extent of consumption purposes.

Banks may adopt the following guidelines:

- Credit Limit for production credit is fixed on the basis of operational land holding of card holder, cropping pattern followed by him/her and the scales of finance approved by the District Level Technical Committee for cultivation of different crops, based on agricultural practices adopted in the area.
- Credit limit for term and working capital limit for agriculture and allied activities etc. is fixed on the basis of cost of the asset/s proposed to be acquired by the farmer, the allied activities already being undertaken on the farm, the bank’s judgment on the farmers repayment capacity vis-a-vis total loan devolving on the farmer, including existing loan obligations.

The elaborate guidelines on the fixing of scale of finance (SOF) and unit cost are being adhered to at the district level. Scale of finance is seen increasing year after year and of late the increase is much higher than the consumer price index inflation rates. But the farmers say it is not adequate. Farmers want all their expenses to be met by the loan.

Commercial banks add 20% or more over the scale of finance as contingencies for covering non-farm expenses and consumption expenditures. Commercial banks are observed to sanction amounts higher than Scale of Finance.

Often the latest circulars issued by the Lead Bank and DLTC are not available with the commercial bank branches and they seem to adopt older SOF. DCCB branches are updated on SOF by the DCCB head office. It is suggested that the Lead Bank may open a website and place the latest details therein so that the banks can offer the appropriate loans to the borrowers.

The term loans are sanctioned on the basis of cost of investment and other aspects. Term Loan accounts are kept separate.
Entire credit limit is disbursed in cash with discretion to farmers to purchase inputs of their choice from outlets of their choice; farmers can take advantage of market conditions.

Commercial banks have been always disbursing in cash unlike the PACS who were releasing certain portion in kind; meaning that the borrower will be issued fertilizer etc in the PACS.

Commercial banks disburse the loans in cash. Yet they are seen to ask the farmers to bring quotations, invoices etc which is a cumbersome procedure and does not help in making the account cash credit in nature.

Cooperative banks disburse in cash too. They say that they have given up the habit of kind component being mandatorily taken from the society. The stocking of fertilizers, pesticides and other inputs in the society and the need for achieving sales target set by the Registrar tell a different story.

Sub-limits, within the overall cash credit limits are available for different cultivation seasons.

No bank is practicing this aspect. In fact this a sub limit will make it cumbersome. Sub limit was the system in the old crop loan in which its objective was to prevent diversion of funds.

Limit or Card is valid for 3/5 years subject to annual review by financing bank. (Even though the validity of KCC is up to 5 years, the renewal of KCC may be done annually depending upon the operation of the account.)

Being adhered to. Banks are happy with this stipulation as it helps reduce the work load. However the need to review/renew annually has resulted in calling for documents such as NOC, Land holding information etc. The demand for a fresh set of documents is causing very high hardship. It is suggested that review may be done without asking for fresh proof of land owned etc.

Each drawal made by card/account holder is to be repaid within 12 months.

This is an unrealistic condition. This is not being strictly followed by the banks who stipulate repayment on Kharif and Rabi season basis. This norm comes in the way of the account being a real cash credit. These aspects could be left to the discretion of the branches. In the case of industrial cash credits banks monitor the accounts on turn over basis.
Conversion/rescheduling of loan is permissible in case of damage to cultivated crops on account of natural calamities.

These are provisions for meeting the cash flow inadequacy on account of natural calamities. These are applicable for a demand loan cash credit. Given that KCC covers a number of crops/seasons a portion of the KCC limit cannot be converted into a term loan. There is a need to redesign the conversion/rescheduling product.

As an incentive for good performance, credit limits could be enhanced by the financing bank to take care of increase in costs, change in cropping pattern adopted by the farmer and such other reasons.

Increase in costs of cultivation etc should be considered for everyone. This should not be restricted to only those who have good performance. This is because under financing will induce private borrowings and lead to default in the account.

Security and Margin for loans are stipulated by Reserve Bank of India uniformly for all card holders.

This is being adhered. But some of the banks take more collateral. Banks show a high level of comfort in the case of collateral availability. It should be considered if allowing mortgage for small loans will pave way for more loans to small farmers.

Operations on the credit card account may be through card issuing branch or through other Designated branches (at the discretion of financing bank).

The banks have not made this aspect operational. Thus KCC is operated only in the KCC issuing branch. Non-issue of cheque books in the KCC account is the primary reason for this. However as the branches are now CBS linked this facility can be easily made available to borrowers. Banks may like to use a bio-metric smart card such that both literate and illiterate farmers can be extended this facility.

Credit balances in the cash credit account are eligible for payment of interest by bank at savings bank rates.

This is being adhered. Out of the 239 accounts studied, 145 accounts came to credit at least once a year. But the credit was one or two days, before further withdrawals took place. The number of credit days was not adequate for savings bank rules. But only one of the 145 accounts had credit balance for a few days. RBI said SB rate of interest should be paid but “not as per SB rules”. Banks interpreted this to their advantage. Even for one day credit balance interest may be paid.
Withdrawals from accounts are permitted through withdrawal slips / cheques duly accompanied by card cum passbook. Banks have stated that they will issue cheque books for literate farmers. Yet the applications for the loan do not seek the specific information if the farmer would like to use the cheque book. Sometimes, banks disburse the loan amount to the Savings bank account and the borrowers withdraw the money from there. Some of the village branches do not have access to clearing houses. This may also inhibit the effectiveness of cheque book. It is necessary that, for the accounts to become true cash credit accounts banks should issue KCC cheque books such that the farmer gets the flexibility to operate the account.

Crop loans disbursed under KCC Scheme for notified crops are covered under National Agriculture Crop Insurance Scheme to protect the interest of the farmer against loss of crop yield caused by natural calamities. It is observed that not all the crops are notified. The premium for cash crops is 5% per crop, which is very high. Majority of small and marginal farmers and those who had un-irrigated crops, wherein the vulnerability is high reported having crop losses, but not getting the insurance despite paying the premium.

KCC holders can use the same for purchase of inputs directly from the shops/merchants. This has not been made operational by any bank. No bank has approved any merchant or made arrangement with merchants for the same.

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Over the last ten years, the scope of KCC has been increased and today banks not only offer KCC but also many products under KCC variants. Some of the banks have introduced KCC, also for produce pledge loans. Yet, the crop loan and the term loan portion continue to be the main focus of KCC. These two loans are issued separately with two distinct streams of interest payments and repayments of principal amount being stipulated, though the farmer’s cash flow is from a single source namely, sale of agricultural produce.

9.2. Issues and Recommendations

9.2.1 Inadequate outreach of KCC

The estimated number of KCCs in operation (4.33 Crore) against nearly 14.79 Crore rural households and 8.935 Crore operational land holdings would clearly
show that a large number of farmers have not been covered by KCC. Analysis of data and the field study findings point out that the outreach of KCC to small and marginal farmers and small loans under KCC is less than satisfactory. It appears that small farmers with food crops are finding it difficult to access KCC whereas small farmers growing cash crops are, possibly able to access KCC somewhat more easily. The discussion with bankers in Sangli district and controlling offices of banks reveal the possibility that about 60 per cent of the eligible farmers could be covered under KCC and remaining households may not be covered due to reasons such as farmer having defaulted in respect of loans availed under Government sponsored programmes or other reasons such as paucity of staff at branch level, lack of publicity, land disputes, etc. Farmers who did not have a KCC account have stated that reasons such as unwillingness of the banks to consider oral lease, unwillingness to consider small loans, etc are also important reasons. It is also seen that banks are willing to consider larger loan amounts if there is adequate security. Thus, availability of security or collateral for the loan is an important determinant for availability of credit. In sum, the critical factor is “eligibility”. It can also be stated that banks do not seem to market KCC.

9.2.2 Eligibility criteria and access to KCC

In practice, eligibility is mainly decided by issues such as (a) having ownership of free hold agricultural land (b) past performance (track record) of the farmer in repaying credit availed from the lender or other formal credit institutions. Though capacity to offer security/collateral is not indicted as eligibility criteria, in practice it is seen that availability of collateral does enable faster access to credit. As per prescriptions of the bank, up to certain amount of loan the collateral has been waived. Though banks have stated that the size of the loan could be as low as Rs 3000, yet sanctions for such amounts are not seen. Further, while appraising the loan, the banks take into account items such as source of irrigation, availability of farm power, net the worth of the farmer, having access to other sources of income etc., The appropriateness of the eligibility and operational guidelines, the way in which these are administered will determine the efficiency of KCC and make it hassle free
or otherwise. A case in point is “no due certificate” which is one of the stipulations to determine the eligibility criteria ‘track record’. The Report of the working group to examine the Procedures and Processes of Agricultural loans (Swarnkar committee) has pointed out that this is very difficult to obtain NDC or NOC from all the banks functioning in an area. Further, in the case of a farmer who has been banking with a particular bank NDC may not be needed. Yet a banker may ask for a NDC as the circulars from the controlling offices has indicated that NDC/NOC is necessary. The committee also observed that various requirements are made known to the farmer in a piecemeal manner. During the field survey it was observed that not many new farmers have been added in the branches which were visited. The issue of hassles is linked to the guidelines on many such aspects of KCC. It is observed that in most cases the guidelines are elaborate. Guidelines clearly indicate that the branch manager can use discretion to relax the conditions where ever needed. However such relaxations do not take place. For example, while studying the issue of the Scale of finance the researcher had observed that the SOF was invariably used as a thumb rule and no branch manager was willing to use the discretion extended in the guidelines. That’s why the Swarnkar committee, on the issue of NDC said that “There has to be specific instructions for not taking no due certificate etc and saying that bankers may use discretion does not help”. This observation applies ipso facto to all those areas where the branch manager has discretion.

9.2.2.1 KCC and type of farmers

The data analysis on the implementation of the KCC across the country and during the field survey has shown that access to KCC seems to be easier for the big farmers than small farmers. As regards small farmers, the policy stance is in support of the farmers but in practice the number of small farmers financed under KCC is much less than the number of small farmers eligible for credit. Since KCC is the only mode of finance it can be stated definitely that many small farmers do not have access to formal credit. This view point has been corroborated by other researchers and expert groups. The field survey has shown that among the small farmers, those growing cash crops (which attract a higher SOF) may find it easier to get a KCC than small farmers with food crops etc.
Moreover, it is evident that the owner cultivator is preferred for the issue of KCC than farmers with oral lease and other forms of tenancy. The existing legal framework does not encourage registering or recording of lease or tenancy of agricultural land. On the other hand oral lease is not recognized by the banks. Thus KCC does not reach the tenant farmers. One of the suggestions for the tenant farmers made by the IBA group is financing them through JLG. IBA reports also indicates how difficult the process of facilitating JLG. In the mean time the RBI has issued guidelines on General Credit Card (GCC) for financial inclusion. It is worth considering if tenant farmers can be brought under GCC.

9.2.2.2. Track Record

Another eligibility criterion is that the farmers should have a good track record. By which it is meant that they should have paid their dues from institutions promptly. Track record is a function of prompt repayments in the account and similar performance of the past. While this is an essential for the bank that habitual or willful defaulter is not financed it must be borne in mind that on account of income volatility the small farmers may not be able to be prompt. The fact that the GOI had announced an interest waiver in 2003, announced, in the year 2004, a scheme for rollover of dues in the case of farmers who have faced flood like or drought like situation, followed it in the year 2008 by a massive waiver and a series of OTS have been announced by RBI since the year 2001-02 stand witness to the fact that the farmers faces many risks and cannot, possibly have a good track record. One of the covenants of OTS was also that the farmers who avail OTS should not be debarred from fresh credit. Similar guidelines were issued by RBI under ‘Guidelines for relief measures by banks in areas affected by natural calamities”. Thus the word ‘track record’ needs to be used with more carefully such that it does not become an arbitrary tool in the hands of the bank to refuse a loan.

9.2.2.3. Collateral and KCC

Banks do not stipulate collateral as eligibility criteria. Rightly so as collateral is useful only when the account goes bad and therefore cannot be a criteria for deciding on the eligibility of a borrower. But it is seen that banks are
comfortable with a loan where collaterals are available. Banks do not take any security for loans up to Rs 50000. Beyond this amount banks take surety or mortgage as collateral. The threshold amount varies from bank to bank. It appears that banks are comfortable with a registered mortgage and surety. Yet there are not many instances where the banks have used the collateral for recovery purpose. It is a matter of record that money suits take lot of time to fructify in the country. Also sale of agricultural land by foreclosure is full of procedural hurdles. Studies have shown that collaterals are more useful for banks to make the farmer come to the table or for pressing recovery and negotiation (Bhaskaran) than for foreclosure and recovery. Farmers attach a great value to the land and hence try not to lose it by defaulting on a loan account. It is however an emerging conclusion that, KCC is more freely extended to those farmers who offer good collateral security such as surety and/or mortgage. Possibly bankers are aware of the limitations in the use of collaterals for recovery but seek comfort in the fact that it is available on paper. It is also seen that in the case of a new borrower ability to offer collaterals and surety plays an important role. It can be, by inference said that collateral is also an important eligibility condition.

RBI had in the late 70’s observed that insistence on surety and collateral resulted in the small farmer being put into difficulty and had directed that the banks should not take surety or mortgage for a given volume of loan. Currently, as per RBI guidelines up to Rs.25000 no collateral should be taken. But given the mindset of the banks, and as inferred from the field survey and other reports, it appears that the front line bank staff in the branches prefers security and/or mortgage. In view of this, if cost (stamp duty) of creating mortgage could be waived by the State Government and if the RBI would allow collateral even for smaller amounts there appears a possibility that the small farmer will get credit from the banks. There need not be any apprehension that the farmer will lose the land as foreclosure and selling of agricultural land is, as per extant laws difficult. This is being suggested because Swarnkar committee has gone on record on issues such as apprehension about vigilance in the minds of the bank staff. In this regard the R.V.Gupta committee had recommended that ‘in
order to give operational flexibility to the lending bankers, margin, security and collateral requirements should be left to the discretion of the lending banker for loans above Rs 10,000. This idea needs some debate and consideration. The time has come to implement this recommendation.

The responsibility of rural development rests with both the Governments and the banks. The GOI directs the banks which implement the schemes but there is, in the matter of issues concerned with them there is inadequate response from the State Governments. One such issue is mortgage and the facility for equitable mortgage. It should be possible for the state Government to speed up computerization of the land records and allow access to the banks such that verification and mortgage becomes easy. Such measure will greatly help the small farmers who will be able to offer collateral which will ensure flow of credit to them.

If the above can be implemented, other forms of collateral such as surety may be restricted to above Rs.50000.

9.2.3 Sanction Process

Banks have issued guidelines to the branches on KCC. The process can be seen in terms of four distinct stages, namely application, appraisal and sanction, operations in the account and review. (As against this it is seen that in the case of General Credit Card (GCC) a borrower gets access to Rs.25000 credit merely by giving proof of residence and without any commitment about end use, whereas a farmer, for the same amount has to give a lot more documents). The KCC holder is expected to comply with certain requirements in terms of documents in the application and review stage. The appraisal involves a visit of the bank staff to verify the KYC and farm related aspects. The bank staff visits the farmer for verifying the end use and other aspects during the time of KCC utilization also. All these four stages involve some time and cost efforts on the part of the farmer. In view of this, it has been seen that the cost decreases with the increase in quantum of credit. An important aspect of the appraisal is the scale of finance (SOF). Though almost all the committees and the circulars
from the head offices of the banks indicate that the branch managers have the discretion to vary the SOF it is seldom done.

It is seen that cash crops are more generously appraised than other crops. The SOF for cash crops is also high. The fixed costs incurred in documentation/stamp fees, getting the land record abstracts from the land registry/village offices, crop insurance premium (which is applicable mostly in the case of non cash crops), PAIS etc increase the cost of borrowing for small loans. In the case of bigger loans, the cost of mortgage is also incurred. KCC being three to five year duration, some of the fixed costs get spread over three to five years and thus reduce the annualized cost of credit. Recently, the GOI and some of the State Governments have offered interest subvention for crop loans and as such the effective rate of interest for the farmer for loans up to Rs.3 lakh is 6%p.a. The inference that can be drawn from the above, various studies that have been carried out and the current field visit on KCC is that the small and marginal farmers who cultivate crops which have a lower scale of finance find it difficult to get the KCC.

9.2.4 Financial Literacy and KCC

As of now the full details of eligibility conditions are not known to the farmers. The repayment terms and the need to make at least one payment in 12 months etc are also not known to all the KCC holders. Similarly not much has been done by the banks in educating the KCC holders as to how the efficiency of KCC can be maximized. The banks have put some basic information in their website. The information is insufficient for evaluating the products. Also it is not clear as to how many farmers will visit the website. It is therefore suggested that the Lead District Office may be given the responsibility of informing the general public about the eligibility conditions. Further the details may be put in the website of the department of agriculture which has a Marathi site.

There is a need for the banks to be transparent in their norms. The branches should display the important terms in local language, in the Branch such that the farmers can demand appropriate product. If the clients are sure about the
product they can demand better service and hassle free delivery can come about. As of now it is essential that information on products is made available such that farmers can take informed decisions. One of the crucial things is also that the application form should be available in the website such that everyone can apply for a loan. The loan application should be- even if it is priced- available easily.

9.2.5. Product design

(i) Credit Card

Kisan Credit Card, though it has Credit Card in its name, is not a credit card per se. It is only a passbook with an ID card containing all the financing details. At times, even the passbook is not issued. (Bird-2000, Sharma-2004, Nabard-2007). The passbook and ID card would have been useful if the banks were able to make arrangement with merchants for issuing inputs on the basis of ID and seek reimbursement from the banks in due course. This can be achieved by adding either coupons or vouchers as a part of the KCC which can be used to buy inputs from vendors. Vendors can encash the coupons or vouchers with the bank in due course. In the absence of similar arrangements, KCC holders withdrew the cash in one go and used it as and when warranted. Alternatively, KCC holders had to visit the branch many times to withdraw cash and use it for inputs etc. In the absence of this, the KCC is not cost-effective and hassle free credit delivery mechanism.

(ii) Cash Credit

Even prior to the launch of KCC some banks had issued cash credit loans for crops. As of now all the banks have shifted to cash credit format of KCC from the earlier demand loan based accounting. The accounting and ledger formats used in the branches clearly demonstrated this aspect. The ledger folios contained provisions for marking the limit sanctioned, rate of interest, amount drawn, use of cheques etc. The computerized accounting procedure took care of the calculation of interest etc through the software. Yet the accounts were not operated like a cash credit because of reasons such as non issue of cheque book.
(iii) Cheque Books

KCC being a cash credit must be operated through cheques. It has been observed that Cooperative banks and RRBs had issued cheque books to the KCC borrowers. Though commercial banks have indicated that they will be issuing cheque books to literate farmers, as of now, only one or two commercial banks have implemented this. Almost all the commercial banks allowed the KCC borrowers to use loose cheques for withdrawal of cash. However, wherever the cheque books were issued, it was found that the cheques were not useful in making payments for purchase etc as (a) the merchants in semi urban and rural areas are not enthusiastic about accepting cheques and (b) some of the rural branches have no access to the clearing system of banks. Cheques have never been popular with the merchants as a payment device. This is because of the possibility of dishonor or bounding of cheques. Thus, the use of cheque books was limited to drawing cash from the bank branch or DCCB branch. (Strangely the RBI circular also advocated that cheque books can be used by the farmer if accompanied by the passbook.)

When approached by the researcher for comments on this issue, the controlling offices of the commercial banks had indicated that the issue of cheque books is being hastened up and with the installation of Core Banking Solutions it should be easier now. They, however, agreed that the concern about non-issue or restricted use of cheque books is a nationwide issue.

Even if cheque books were to be issued, KCC will not become effective unless the merchants accept the same. It is not that non acceptance by merchants is an exclusive issue for KCC cheques. Merchants, particularly retailers, be it grocery or fertilizer, have always shown a reluctance to accept cheques. It is for this reason that credit cards and debit cards are being welcome as payment devices. In sum, it can be said that the non-issue of cheque books and its non acceptance by input vendors come in the way of hassle free credit delivery.

(iv) Disbursements

Under KCC, borrowers were able to take out cash more freely than in the past.
This is because banks do not insist on kind component and allow disbursement on the basis of application. It may be added that in the past the banks insisted on issuing cheque to the vendors or reimbursed the borrowers after the input purchase has been made. That showed (a) that the banks were keen on a particular end use and (b) were apprehensive that the borrower will misuse the funds. Thankfully, the current system allows cash withdrawal whenever needed. It is seen that some of the banks disburse credit to the SB account from where the borrower withdraws the money. If the money were to remain unused in SB account, there is loss of interest to the borrower. Disbursement to SB account clearly showed that the KCC is not a cash credit account.

(v) Scale of finance and sanctioned limits

The scale of finance (SOF) which forms the basis of calculation of KCC limit had a number of constraints. The major criticism is that DLTCs arrive at the SOF in the same style as if the crop loans are short term loans and are repayable at the end of the season. Though the SOF was arrived at separately for different type of agricultural practices it is seen that it does not fully meet the cultivation expenses in its entirety. It is not possible to arrive at individual fund gap of the farmer and, hence, SOF is applied uniformly for small and big farms alike. It did not constrain the big farmers where the banks, on account of availability of mortgage were able to sanction higher limits.

By stipulating the installments in which the scale of finance has to be disbursed and the date of repayment, the SOF constrained the operations in the KCC. On the other hand, it is observed that branches are unwilling to decide on the quantum of loan by own appraisal and the system works better when some guidelines such as SOF are issued. The field survey shows that most branches are keen to follow the Scale of Finance. It is easier to add the consumption and nonfarm expenses to SOF as a percentage.

A criticism of SOF is that it is being decided by the DCCB which – due to its fund constraints and predominant small borrower financing- tends to restrict the quantum.
Further, once a limit is sanctioned, the KCC must operate like a cash credit and, therefore, the SOF need not specify as to in how many installments the credit should be issued and also the repayment period. KCC already stipulates that each drawal should be repaid in twelve months and therefore further crop specific repayment specifications may be avoided. By stipulating conditions that restrained the KCC operations SOF came in the way of hassle free delivery of credit.

Some of these constraints could be removed by (a) entrusting the scale of finance work to Lead Bank and (b) indicating that the DLTC need not indicate the installments and repayment details.

(vi) Cost of Credit

Another aspect that impacts the credit delivery is the cost of credit. The cost can be classified as fixed cost that is spent on issues such as documentation, getting land records, registering mortgage etc., and variable cost on account of interest, though the rate of interest is fixed the amount of interest varies with amount of loan. In arriving at the cost of credit, the expenses incurred in complying with the eligibility and procedural aspects of KCC are taken into account. It is seen that the effective cost of credit is much higher in the case of small farmers and small loans. Thus the cost of bank loan is higher with lower amount of loan and the cost reduces as the loan amount increases. There is room for reducing the fixed cost.

(vii) Operations in the account

In the case of cooperative banks, the KCC was issued in the branch of DCCB with a proviso that it can be operated at DCCB and the PACS level. In practice, the KCC operations were made at the DCCB level. The role of PACS is getting marginalized in the KCC. Yet the PACS maintain a mirror account. Cooperatives continue to follow the Normal Credit Limit (NCL) and Annual Credit Limit (ACL) system which have outlived their utility. Informally, the cooperatives continue to insist that the KCC holders lift fertilizers from them or from the sugar factory to whom the sugarcane has to be supplied. This restricts the effectiveness
of KCC. The sugar factories did not adhere to time commitment in the case of payment of the value of sugarcane and the KCC holders had to bear the interest burden there against.

(viii) Crop insurance

Though the banks are deducting the premium towards crop insurance, it was reported that the farmers are not getting the benefit of insurance. The procedure for claiming insurance in case of crop loss is stated to be difficult by the KCC borrowers. Being an area based scheme the insured does not have a role in the claim process. If the claim procedure is simplified, the farmers will get the benefit of such schemes and the crop insurance can be used as a safety net for farmers in case of natural calamities and loss of crops. Further, crop insurance continues to be “crop loan insurance”. Cash crop farmers avoid crop insurance due to higher premium. Often cash crops are not notified crops for the purpose of crop insurance. That the crop insurance is area based and individual losses may not be covered is not apparent to the borrowers. The cost of cultivation fixed by DLTC is covered by the loan, but the actual cost of cultivation is higher as scale of finance is always less than the estimated cost of cultivation.

(ix) Personal Accident Insurance Scheme

The overwhelming reaction to Personal Accident Insurance scheme is that it may be moved out of the credit product. PAIS adds to the work load of the banks. The insurance scheme is not transparent and does not add value to the credit product.

(x) Annual Review

Banks carry out an annual review of the KCC limit and its utilization. For this purpose, banks insist on a fresh (latest) set of land records. The field visit has shown that for getting the copies of land records one has to meet on the record and off the record expenses (NABARD 2007 ). The stipulation that borrowers have to produce a fresh set of land documents etc for annual review may be
refined and documentary proof may not be asked. Since the limit is sanctioned for three to five years the annual review should focus on the health of the account and not on aspects of ownership, proof or residence etc. This is an important step to make KCC hassle free.

(xi) Withdrawals and Repayments

Most cardholders are withdrawing the entire amount of the sanctioned limit in one lump sum and effect repayment in one go. The banks have given the KCC holders freedom to operate the account as many times as they want. As such stipulating that the account should be operated frequently and used as KCC may not be in true spirit of the statement. The KCC guidelines stipulate that each drawal in the account must be repaid within 12 months. In a KCC accounts with limits covering more than one cropping season or perennial crops this condition is very restrictive. Add to this, the branches adhere the repayments as stipulated in the SOF circular of the lead bank, which in most cases is less than one year; the efficacy of the KCC is compromised. It has been argued (Bhaskaran) that rural cash flows are uncertain and volatile and, there is a case to redesign the loan product. The Expert Group on Agricultural indebtedness has also recommended that in case of small farmers there is a case for cyclical credit which is nothing but a four to five year loan with flexible repayment. It is suggested that the KCC could be a five year composite limit with flexible repayments.

(xii) Term Loans

As regards term loan being included in the KCC, it is seen that banks have still not implemented this fully. The loan installment in the case of term loans and the repayment of crop loans are being stipulated separately. There is a need for offering composite loan products including crop loan and investment loans. (The Vyas Committee and the R.V Gupta Committee) This can be done in two ways (a) A five year composite loan (crop loan and term loan) may be sanctioned to the farmer with annual reduction in the limit on account of term loan portion with a stipulation that interest should be repaid annually or (b) the crop loan can be sanctioned with a condition that the account should show
some credit each year and that in the year of good crop the credit should be at least 50% of the loan sanctioned.

(xiii) Validity period of Kisan Credit Card

The three years validity period of the KCCs stated to be adequate both by the bankers as well as borrowers. It is beneficial to the farmers, as they need not to go through the process of collecting documents and visiting the banks frequently for sanction. The procedure is cost effective for both, the banker and the borrower. Yet without any further effort the limit can be made for five years. It must be added that the mortgage is valid for 12 years and therefore secured KCC can be sanctioned for longer periods.

(xiv) Interest rates and burden

Regarding interest rates, it is seen that the rate of interest on the limit up to Rs. 3 lakh is 6% in Maharashtra and in some other states 7%. In Maharashtra, the state government offers 1% subvention over and above the GOI’s 2% subvention. It is seen that, generally, the KCC limits are less than Rs 3 lakh. Above Rs 3 lakh, the applicable rate of interest is 10.5%. Of late, there is a tendency among KCC borrowers to restrict the amount borrowed to Rs. 3 lakh. Further it is seen that, though the banks have issued guidelines for arriving at the peak credit requirements, an elaborate appraisal does not take place at the branch level, and the limit is arrived at just a multiple of SOF for the one or two major crops. If there is a cash crop and/or a food grain crop, the SOF of cash crop is adopted for arriving at the KCC limit. If rate of interest is fixed progressively with higher limits attracting a higher rate of interest, the borrower will enjoy a higher limit than a limit arrived on the basis of one season crops. This aspect can be studied only if there are no subventions and the banks are free to charge the rate of interest based on the PLR or the base rate.

9.2.6 What are Hassle Free procedures?

A bank stipulates a number of terms for its loans and advances. The terms and conditions are mutually agreed between the lender and the borrower.
But these terms by themselves do not become make the credit hassle free or otherwise. For example, every loan or credit will have some appraisal standards, documentation, inspection etc. This is because, the lender would like to be satisfied about the type and value of security offered and, if the business will be carried on as intended. In order that the borrowers are not inconvenienced, the lenders also follow a “fair practices codes towards borrowers”. In view of this, documentation, rate of interest, collateral etc are not issues to be considered for deciding whether KCC is hassle free or otherwise. For this, we must go back to the beginning and find about those issues that were considered hindrance to credit growth before the arrival of KCC and how those issues were to be addressed by KCC. The previous loaning system was a single season system and procedures relating to sanction were repeated at the beginning of each season, the borrowers end up spending more money on documentation and proof of ownership of land. In addition there was the uncertainty that the credit may or may not continue. As against this, KCC being a three to five year limit was to ensure that the documentation is done only once in three to five years time; thereby saving cost; and that KCC holders get an instrument in their hand which will help them get timely credit and make use of the so called card for buying inputs. KCC was also expected to offer more appropriate finance as it functions like a cash credit, consider some amount of loan for consumption and investment needs. More than anything, KCC will offer operational facility to the farmer to use the account for depositing and withdrawing money any time and any number of times such that there is saving in the amount of interest. Towards this end, the KCC accounts can be operated by cheque books. It was of course clear that the KCC was not a credit card in the sense that there was no payment system embedded in the KCC.

Through the discussion with stake holders it is understood that the intended procedural simplification did not come about though the issue of KCC and growth of credit is visible. The operations in the account belie the expectation that the account will be a full-fledged cash credit. Evidently, there are certain constraints on account of (a) SOF, (b) non-issue and/or limited use of cheque books, (c) non issue of credit card which can be swiped or operated in vendors
place and (d) the procedures adopted for annual review. On the other hand, the KCC has proved better than the one season crop loan in that the credit limit is valid for three to five years and that there is no need for annual sanction. Where ever the availability of collateral is seen, the banks are somewhat more liberal in the KCC limits. KCC has not improved the outreach of credit to small farmers and the fact that the cost of credit to small farmer is high continues. The cost of credit gets progressively lower as the limit size increases. The cost of credit for small farmer has been adversely impacted on account of conservative procedures which are more than what was intended under KCC. The Crop insurance, PAIS schemes did not deliver though the performance of these two schemes is in no way linked to the performance of KCC. Evidently there is scope to improve the procedures and processes of KCC to make it as intended “hassle free”.

The issue of making KCC hassle free rests also with the State Governments because the land record related issues and mortgage related issues discussed above falls in their territory. Rural development cannot be achieved by banks alone. The governments should proactively consider the above suggestions to make KCC hassle free.

In this background, it is necessary to consider as to what are the possible improvements in the process of KCC and its KCC design so as to make it hassle free and also increasing its outreach to small farmers?

9.3 Major Recommendations

9.3.1 Small Farmer Coverage

(a) Joint Liability Agricultural Card

Given the fact that more than of operational holdings in India are less than one hectare, there is an urgent need to bring all these under the formal credit fold. The issues currently inhibiting the flow of credit to the segment as inferred in this study are (i) very small loan amounts which are not viable for bank credit due the volatility of cash flows of such households coupled with lack of financial products to cover price and yield risk that the farmers face
in agriculture as a business, (b) inability of such farmers to offer collaterals to satisfy the risk perception of the lender, (c) non availability of a definite source of power and irrigation to the farm, (d) inability to carry on improved agricultural practices due to the smallness of holding. In this connection, a recommendation to consider review of norms in respect of loans up to Rs 25000 and accept mortgage from those who are willing to offer has already been made. This will not solve the issue of all the small farmers. Deputy Governor of RBI Mrs. Thorat in her speech ‘Banking in the hinterland” said that a “uniform banking/financial product for the entire country would not obviously work”. It was earlier discussed that a one size fit of model will not suit the country given the different agro climatic regions, land holding pattern etc. In view of this there is a need to think the design of KCC more in the case of the small farmers particularly where the landholding size, in some cases could be too small to be viable. Also the crops may not exactly fit in to the Kharif or Rabi definition. Considering all these aspects, a suitable financial product for the small farmers could be the agricultural microfinance. This could take the shape of Joint Liability Agricultural Card (JLAC) of farmers with less than one hectare or less than 0.5 ha of land who can come together to mutually guarantee each other. This mutual guarantee will give a level of comfort for the banks. Banks could consider this collateral substitute and offer each of the JLG member a limit which will be higher than that the farmers would have been individually eligible. This will ensure that the small farmer’s credit needs are fully met and help improving the agricultural production. The mutual guarantee will help the individual farmer more credit than he would have got on his own strength. The repayment could be stipulated based on group appraisal. The JLAC may be offered for a period of five years with each member of the group entitled to a portion of the total limit and will be operated by a smart card with a pin or a bio-metric smart card. Simplified application form can be introduced for these purposes.

(b) Score Card Based appraisal and standard amounts of loan

The credit extended to the farmers cultivating traditional crops may not be high because the cost of cultivation of these crops is low in comparison to cash
crops. Further, it has been observed that the cost of credit of small loans could be higher. In order to contain the cost of credit, the transaction and funding cost of banks and the transaction cost of borrower could be reduced. However there is no scope to reduce the funding cost as the rate of interest is already low. Therefore, one possible way of reducing the cost and making credit flow easier is to offer the small loans under KCC in the retail format. By retail format it is meant the sum of the systems and procedures in which the retail loans are issued. Retail loans of commercial banks for purchase of vehicles, houses etc are appraised in a simple format and have the following characteristics. Here, the appraisal is standard; collection of information is simple and does not involve the need to produce a long list of documents. More importantly the loan amount and the repayment periods are benchmarked to certain factors. The collection of information etc is, at times, outsourced. For example, in the case of agricultural loans proof of ownership of land can be on the basis of JLG declaration, the land record verification can be done by a Business facilitator and the loan amount and repayment arrived on the basis of land owned. Thus in these cases the SOF need not guide the loan limit. The loan could be for a 5 year term. The rest of the procedures could be adopted from the KCC. Here again it would be appropriate to have a bio-metric card which could be user friendly and be of help in closely monitoring the accounts. The method of appraisal suggested above coupled with sanctioning standard amounts (as in the case of General Credit Cards (GCC) on the basis of land holding but not linked to SOF will help reach the small and marginal farmers.

(c) To make the KCC hassle free: a bio-metric metric smart card

After the above, there remains the issue of making the KCC really a card in enabling both credit and making payments. The intention behind the word “KCC” is that it must be a credit card. A credit card, by definition, is both a payment device and a credit source. KCC is backed by a limit earmarked for the holder to use; as such it is a source of credit. It is only the payment device aspect that is missing now. Banks have gone to the extent of offering ATM facilities to the high net worth card holders but not beyond. The logical step, therefore, would be to make available a card that will enable the farmer to withdraw
cash, based on the limit sanctioned as and when needed and use the card for purchasing inputs. If this is done, there may not be any need to issue cheque books. In view of this and more particularly because all KCC accounts of all the banks are covered by Core Banking, it is suggested the KCC account holders may be issued a smart card. This card can be embedded with all the details of the farmer, the loan limit, identification for transaction, land holding details etc. The smart card is a more secure device for the targeted segment and the possibility of misuse is limited. A smart card is suggested because (a) the limits are already defined and sanctioned, (b) the smart card can allow withdrawal of funds which is easier than operating a credit card, where in there is the need for periodical issue of cheques based on the bills raised by the card company (c) there will be no issues such as delayed payment, normal credit period etc and there is no need for a separate collection machinery as the usage of funds is backed by a sanction of KCC cash credit. The KCC smart card can be used in approved outlets for drawing funds. The merchant outlets can be issued with an appropriate Point of Sale (POS) terminal. Another use of smart card is that it can be used for making payments too. These days, smart card technology comes with finger print id (bio-metric) facilities. The smart card can be used for payment through the Business Correspondent (BC) outlets. BC firms are approved by commercial banks for carrying our certain identified functions for making financial inclusion happen. It is recommended that for agricultural KCC loans bio metric smart cards are allowed operations in the BC outlets. One of the clear advantages of bio-metric smart cards over the cheques is that the later is literacy dependant whereas the former is not.

(d) KCC and Financial Inclusion

Financial exclusion is the state where people do not have access to formal banking and finance system. To the extent that small and marginal farmers are not covered by formal financial system they are also part of the excluded. The fact that the NSSO report (ibid) points out that small and marginal farmer’s tend to access more of informal credit makes it clear that financial inclusion is a greater challenge in this area. As such bringing farmers to the credit fold is also a financial inclusion effort. BCs are currently involved only in “no frills”
accounts and small ticket transactions. One of the daunting tasks of the financial inclusion initiative is also on the issue of how to ensure financial viability of BCs whose main source of income is transaction fee for no-frill and small ticket account. BC will become viable if they can handle other transactions on behalf of the banks which will augment their income. In this connection if the BCs are permitted to handle the transactions of KCC accounts through smart cards it will have multiple benefit because (a) the KCC will holders will get cash much closer to their homes and need not go to the branch for cash withdrawal, (b) the BC will get a higher fee income on account of KCC transaction, (C) BC can extend financial advice to KCC as per the banks guidance and (d) BC and keep the application and other forms and make them available to the prospective customers which is currently not available in any village outlets. Most importantly, if the operations of KCC smart cards are carried out through BCs it will not only make KCC hassle free but will also make the BC more viable. BC is already a regulator approved concept and allowing KCC holders to access cash payment and receipts through BC makes good business sense. Eventually, in addition to be a service provider for KCC, BC can be useful in identifying the farmer, filling up the score card details for JLAC etc.

9.3.2 Other recommendations

While discussing some of the issues above or in the previous chapters some recommendations/ suggestions have been made in respect of each of them. In the following some of the recommendations are highlighted. Those points are mentioned in brief here.

1. Where ever willing and available a small farmer may be allowed to offer collateral for loans less than Rs. 50000 also. This will not make collateral compulsory but an enabler to make credit flow happen. While it is a desirable goal that non availability of collateral should not end up in denial of credit to the deserving it should be equally true that if collateral is available why not use it?

2. The land records may computerized and should be accessible on-line for verification by banks.
3. Mortgage for KCC purposes may be made free of stamp duty by all the State Governments.

4. In the event of loss of crop on account of drought or flood the crop loan can be converted into a term loan or the installment can be postponed. The extant rules were developed in the time of one season crop loan and do not suit a three or five year limit as prevalent today. As such converting or rescheduling KCC loan is not easy. Since the KCC is a three to five year limit the conversion logic does not work in the limit. Therefore there is a need to redesign the conversion or rescheduling processes within KCC. Another issue is fund availability with Coops and RRBs for conversion. Here it is essential that NABARD may review the guidelines on the N R C Stabilization fund and make it available on tap for meeting cash flow problems of cooperatives such that the farmers will get automatic rollover of loans in the case of natural calamities. NABARD may also proactively use its scheme for contributing to the share capital of societies so as to help the flow of credit in difficult areas. This is important, because failure to do so may result in denial of credit to the borrowers of the societies or Cooperative banks.

5. Because conversion happens on account of crop losses, interest in the case of a loan converted or postponed on account of calamities may be met by the Government or NABARD (from the stabilization funds; which may call for amending the fund guidelines).

6. The Lead Bank may open a website and place the latest details on scale of finance etc so that the banks can offer adequate loans to the borrowers.

7. It is suggested that the annual review of KCC may be done without asking for fresh proof of land owned, crops grown etc. This will reduce the fixed expenses in the case of small farmers.

8. Branches may display terms and conditions and other details of KCC in on the Notice Board. Application forms may be kept, alongside the pay in slip forms of S B account etc., in the banking hall for easy access.
9.4 Testing of Hypothesis

The stated hypothesis is:

(1) “The intended hassle-free credit under KCC does not happen on account of procedural constraints, product limitations and cash flow vulnerabilities of the farmer. Many of the intended facets of KCC are not implemented in full and therefore, the benefits do not accrue, thus calling for further improvement in KCC.”

(2) The KCC has made credit faster and easier but has not made the cost of credit lower. It is possible that the facility of drawing any number of times will make the farmer keep the outstanding balance at a higher level. As higher limits attract higher rate of interest the interest burden will only go up”.

As regards the first hypothesis the study has shown that KCC is indeed not hassle free because barring one or two issues, the procedures are almost similar to that of the previous crop loans. It is also evident that if some of the guidelines and processes are proactively reviewed KCC will become more accessible. The procedures are difficult not only because of the banks but also due to the apathy of the state government departments in issues such as mortgage, land records etc. Using Technology and making KCC accessible electronically will go a long way in reducing the hassles. Similarly use of technology in the case of land records will help expedite verification and mortgage processes. Currently the obvious advantage of a KCC in terms of a three to five year limit and the resultant certainty of finance is more than offset by the lack of operational freedom, lack of chequing facility, lack of payment mechanism (not being a full-fledged credit card) etc. The growth of agricultural credit has been influenced by KCC but doubling initiative has been more impactful than KCC in augmenting credit growth. One of the reasons for the hassles not being reduced is that the State Government did not relax its procedures in the case of mortgages and access to land records continues to be difficult to access. The Scale of finance had brought certain rigidities.
While hassles are there it is clear that KCC if improved upon can really deliver hassle free credit and for which a few recommendations have been made.

As regards the second hypothesis it has been seen that the KCC has not been operated as a cash credit and there was, generally one lump sum withdrawal and one repayment. The interest burden however did not go up because the rates of interest up to Rs 3 lakh have been reduced to 7% and 6%. In this background whether the peak credit requirement resulted in a higher limit and a higher interest burden could not be proved. But analysis has shown that in the case of smaller loans the fixed cost tends to increase the cost of credit much higher. The research has shown that the cost of credit decrease with an increase in the limit and thus inversely proportional to the loan amount. Further it has been shown that the farmers cannot achieve the goal of a lower burden of interest on account by operating the account more frequently as their cash flows do not support such a course of action.

9.5 Areas for further research

9.5.1 Cost of Credit for small farmers

The cost of credit calculations show that the same (cost of credit) decreases as the volume of loan increases. The calculations are shown for loans ranging from Rs 10,000 to Rs 3 lakh based on the sample. In the sample, the loan sizes vary from Rs 19000 to Rs. 570000. In this back drop, the subvention of 2% by GOI and 1% by State Government becomes more advantageous to the big farmers. How to bring down the cost of credit to small farmers is area of further research.

9.5.2 Information on loans and access to loan

The study has shown that small farmer coverage is inadequate and banks seem to prefer big loans. This research and other researchers have pointed out that banks are inclined towards big farmers or big loans. In other words, higher the amount of loan easier it is to get the loans. There is a need to take this issue further and seek small farmer and banker’s opinion on this as the banks have stated that the minimum loan could be as low as Rs 1000. Are the
small farmers approaching the bank and denied credit? Unfortunately also as pointed out by the Vyas Committee, The R.V Gupta committee and recently by Swarnkar committee the branches do not maintain application register in true spirit. Unless the applications are made available in public domain and farmers are encouraged to apply the denial or otherwise cannot be proved. It is worth considering if the application forms be made available in the web site and also applied on line? Another aspect of the study could be to ask if the small farmers avoid credit from the institutions because the high cost does not matter but procedures are difficult to comply with. Is information availability about bank loans a constraint?

9.5.3 Sub-division of land and viability

It appears that small loans in agricultural is not viable. The study has, therefore, recommended that there is a need to consider JLG loans known as JLAC. As the process of sub division and fragmentation continue it will lead to further smaller holdings. In this milieu carrying on agriculture on such holdings will become more difficult. May be legislatively further sub division has to be curbed. This could be another area of research.

9.6 Conclusion

The present study has identified many issues that have come in the way of the effectiveness of the KCC and come up with feasible recommendations to improve KCC. The study has highlighted the need for the rural credit products to be given flexibility to accommodate the cash flow infirmities and regional variations in agricultural practices. Though agricultural credit is more than a century old in India there are still issues on financial literacy of agricultural credit products. The study has pointed out that the inability of the line managers of the branches to go beyond the elaborate guidelines of KCC is the major constraint. The study has shown that procedures and processes constrain the KCC and that the same (KCC ) has not become a full fledged credit card so far. The study has shown that cost of agricultural credit has been high on the small farmers and small loans account of procedures and that the interest subvention has been more favorable to bigger loans than the small loans. There is a case
that such subventions must be more carefully planned and implemented in future. Proactive use of funds such as NRC (stabilisation) fund with NABARD has been suggested. The need for educating the farmers on the use of KCC has also been suggested. Thus the present study has made a modest attempt to examine issues associated with KCC and make recommendations. However, there are, in the area of agricultural credit numerous issues to be addressed. In this context, it is recommended that a collective effort be made to make KCC more bankers and farmers friendly.

1 Technically all farm households are eligible. Banks have defined the term eligibility differently and there is a lot of opaqueness in the issue.
2 Report of the working group to examine the Procedures and Processes of Agricultural loans. Swarnkar committee.
4 If a person owes, default or otherwise, to a money lender he becomes an eligible person for financing. Default to a formal lender renders the person ineligible.
5 Approach Paper on Flow of Credit to Agriculture sector. IBA Sub-Committee on flow of credit to Agriculture Sector. Indian Banks Association. Mumbai
7 RBI Circular. RPCD. No. PLFS.BC.1/05.04.02/2009-10 dated July, 1, 2009.
9 ILO study on collateral efficiency and collateral substitutes. BIRD - 2000.
10 Report of the working group to examine the Procedures and Processes of Agricultural loans. Swarnkar committee.
11 RBI. Press release. April 1998
12 Doubling of credit study in six states by NABARD www.nabard.org
13 Key note address delivered by Deputy Governor Mrs. Usha Thorat at the conference on ‘Banking in the hinterland” organized by the Indian Banks Association and Rural Marketing Agencies Association of India at Mumbai on February 14th 2007.
14 See annexure on Smart Card.
15 BC stands for business correspondents. BC is an approved agency who can or a person who can be used by banks in reaching the unreached.