CHAPTER 1

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1.1. The context

Accelerating and sustaining agricultural growth by providing adequate and timely credit from the formal banking institutions, thereby achieving the “Second Green Revolution” across the different parts of the country has come to occupy an important content of the development agenda of the new century. Like any other industry, the agricultural sector also requires adequate and timely credit for its faster and sustained growth. It is a well-known fact that the Indian economy is a predominantly agrarian economy and land of peasant communities. Without the agricultural prosperity, the prosperity of the Indian economy becomes too difficult to realize. Unless adequate and timely provision of credit flows into the farm sector, it does not move on the required path to achieve the declared goals and objectives. Historically speaking, the non-institutional sources were the main source of credit for agricultural development till the enactment of Co-operative Credit Societies Act in 1904. It was in 1935 after the establishment of RBI (Reserve Bank of India), it played a central role in the task of building the cooperative credit structure which gradually evolved into two separate arms: one for short-term credit and another for long-term credit (Ojha, 1986).

As the co-operative credit societies were unable to meet the credit needs of the farmers, Commercial Banks were called up by nationalizing 14 private commercial banks in 1969 and 6 in 1980. In order to meet the objectives of the planned economic development, the Commercial Banks were brought under the direct control of the Government through ‘social control’. However, a large number of small and marginal farmers and landless agricultural labourers continued to be deprived of credit from the co-operative credit societies and also commercial banks. Consequently, they had to depend on the non-institutional sources of credit, resulting in a rapid growth of “indebtedness” among them. With a view to provide cheap credit to the rural people, particularly for small and marginal farmers, agricultural labourers and rural artisans, Regional Rural Banks (RRBs) “known as poor man’s bank” were established in 1975. Since the 1970s,
thus, the "multi-agency approach" has been followed to cater to credit needs of the rural people, in general, and the farming community, in particular.

It can be noted that rural people need credit for a variety of reasons. They need short-term credit for production and for long-term credit for investment in agriculture and other income-bearing activities. Agricultural and non-agricultural activities in rural and semi-urban areas are typically seasonal in nature, and households need credit to smooth out seasonal fluctuations in earnings and expenditure. Rural households, particularly those vulnerable to minor shocks with respect to income and expenditure, need credit as an "insurance" against risk and uncertainty. In a society that has no free, compulsory and universal education or health care, and very few general social security programmes, rural households need credit for different types of consumption. These include expenditure on food, housing, health, and education. In the Indian context, another important purpose of borrowing is to meet expenses for a variety of social obligations and rituals. If these credit needs of the poor are to be met, rural households need access to credit institutions that provide them a wide range of financial services, provide credit at reasonable rates of interest and that are free from any exploitative and fraudulent obligations.

At present, the farm sector is facing several problems. Among them, there have been four important problems with respect to provision of rural credit for agricultural development. First, the supply of formal sector credit to the countryside as a whole has been inadequate. Secondly, rural credit markets themselves have been very imperfect and fragmented in India. Thirdly, the distribution of institutional credit has been asymmetrical, particularly with respect to region and size of landholdings, caste and gender. Finally, the major source of credit to rural households, particularly resource-poor working households, is from the non-institutional credit lending agencies, which is usually advanced at very high rates of interest.

The declared objectives of public policy with regard to agricultural credit in the post-Independence period were, in the words of then Governor of the RBI, "to ensure that sufficient and timely credit, at reasonable rates of interest, is made available to as large a segment of the rural population as possible" (Rangarajan,
The policy instruments to achieve these objectives were to be, first, the expansion of the institutional structure of formal-sector lending institutions, secondly, directed lending; and thirdly, concessional or subsidized credit. The public policy was thus aimed not only at meeting agricultural credit needs but also at pushing out the informal sector and the exploitation of the peasant communities (Chavan, 2001) Agricultural credit policy in India envisaged the provision of a range of credit services, including long-term and short-term credit and large-scale and small-scale loans to rural households.

The sustained and rapid growth in agriculture can be achieved mainly through an increase in productivity which is only possible through provision of adequate and timely credit, on the one hand, and accelerated development and dissemination of improved technologies, on the other (Mruthyunjaya, Pal, Joshi and Saxena, 2002) In order to produce more, the farmers need to spend more on modern inputs, which must be financed either out of savings or through borrowings Since the amount of savings by the farmers is very poor, an increased institutional credit flow is essential for faster agricultural growth but the rural formal credit market development is a complex process because agriculture is a small, widely dispersed and highly dependent, partially on commercialized and deprived of basic socio-economic and institutional infrastructure (Desai and Mellor, 1993) Moreover, agriculture got a preferred status for financing through institutional sources in India, particularly during the post-Bank Nationalization era

Agriculture credit policy has been progressively institutionalised for providing timely and adequate credit to the farmers for increasing agricultural production and productivity (GoI, 2000) Our institutional agricultural credit system has made it possible for small and marginal farmers to have a share in the institutional credit flow, which could be achieved by facilitating their access to institutional credit system. To fulfill the requirements of farm credit, M. Louis Tardy (1935) mentions some criteria, those are a) it should be granted for a sufficient long period, commensurate with the length of the operation which is designed to facilitate, b) it should be granted at a low rate of interest, c) it should be adequately secured in order to avoid any abuse of credit facilities, but the
security should not necessarily be material; it should, if necessary, be in the form of a personal credit secured and it should be based on the borrower’s moral standing and farming ability. d) it should be adapted to the average yield and capacity for repayment of the farmers, particularly during the period of economic distress; e) it should be placed in the hands of institutions, the directors of which have received special training and had actual banking experience.

1.2. Credit policies since the 1990s

Since 1990s, the economic policies and technological system, across the globe economy, are changing rapidly, leading to bring about a faster socio-economic transformation of the new millennium. The intensity and impact of these changes, however, are more pronounced in developing countries like India. Although the economic liberalisation and structural adjustment programmes initiated since the early 1990s were not explicitly directed to agriculture, they were expected to have impact on agriculture sector significantly through input (credit and labour) and output markets (production and export of commercial crops). The impact may be more visible with the completion of second phase of economic reforms covering financial sector reforms (Vyas, 2001) In the process of growing commercialisation and capitalisation of agricultural sector, there has been a rapid rise in the demand for institutional credit by the peasant communities. To make successful programme to meet the peasants' requirements, target-oriented approach has to be replaced by, purpose-oriented approach with more human, equal and spiritual manner (Tingalaya, 1997).

As mentioned earlier, India has been following the multi-agency approach for provision of adequate and timely credit to the needy farmers. There are three major institutional agencies catering credit needs of the peasants in rural areas, namely, Co-operative Credit Societies, Scheduled Commercial Banks and RRBs. These institutions provide both short and long term loans. The credit given by these institutions for agriculture and allied activities is supposed to play a significant role in enhancing agricultural production and productivity. In 1991, India faced severe crises, problems like the increase in budget deficit to over 9 per cent of Gross Domestic Product (GDP), Government's inability to rationalise loss
making state enterprises and inability to curtail its subsidies and other expenditures made an economic growth of the country came to halt, foreign reserves reached perilously low level and inflation double digits. The situation forced the Government of India to introduce reforms measures in the banking and financial sectors, among others, since 1991 as one of the important steps to overcome the banking and financial crisis. The Government appointed the Narasimham Committee (1991) to recommend the reform measures in the financial sector with regard to capital adequacy, priority sector lending, statutory reserve ratio, phasing out of concessional interest rate and establishment of special tribunals for the recovery of loan dues.

The committee recommended several measures to improve efficiency, profitability and viability of the banking sector. More relevant recommendations were to bring down the credit target for the priority sector from the existing level of 40 per cent to 10 per cent of aggregate bank credit, deregulation of interest rates, abolition of bank licensing, gradual phasing out of directed credit programmes, closing down of loss-making bank branches and so on. The committee was of the view that easy and timely access to credit was found to be more important than its cost. Gradual reduction of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) to enable the banks to have a larger quantum of loanable funds was also recommended. The government did not accept all the recommendations made by the committee, especially reducing the target for priority sector lending (Sahu and Rajashekar, 2002).

In 1998, the Gupta Committee was set up to look into the issues relating to the quality of credit delivered by the banking institutions. It highlighted the issue of how the quality of lending could help the viability of the banking system. The committee suggested several measures to improve the credit delivery system such as simplification of procedures for agricultural credit, identifying constraints faced by commercial banks to increase the flow of credit, are some of the important suggestions among others. On the whole, during the post-reform period, the RBI has been following the approach of broadening the scope of priority sector by keeping the same target to encourage diversion from direct priority sector lending. The whole idea is to allow banks to fulfill the target of priority sector, in general,
and agriculture in particular, from total advances made by the banks, without having to lend directly much more to those areas included in the priority sector in the early 1990s (Shajahan, 1999). As a result, the co-operatives were expected to be a self-reliant and the priority sectors were redefined. The RRBs are authorized by (National Bank for Agricultural and Rural Development) NABARD to extend finance to non-target group of borrowers.

There are, however, regional disparities in the expansion of banking network and the Northeastern part of the country remains scantily served. The regional variations are wider in the use of commercial banking institutions as compared to co-operative banking institutions. Along with the regional disparities, the existences of class disparities were also a critical area of concern. Large number of co-operative banks and RRBs are facing lack of basic infrastructure facilities to start the branches in rural areas like store rooms, godowns, trained banking and supporting technical staff and even some branches and primary co-operatives do not have even proper premises which can be considered for a banking unit. Politicisation, over-bureaucratisation, low resource efficiency and persistence loan delinquency are the other major problems of the rural banking.

The Kusro Committee (GoI, 1989) reiterated that the major weakness of the co-operative system lies in the neglect of the base-level institutions, with the lower-tiers looking up to the higher tiers for refinance at all levels. It also pointed out that the staff in rural branches of commercial banks lacking sufficient motivation to work in rural areas, the neglect of supervision of rural branches, lower staff productivity, lending under Integrated Rural Development Programme (IRDP), poor deposit mobilization, etc., are cause for poor profitability in rural banking. The main reasons behind poor loan recovery are wilful defaulters, misuse of loans, lack of follow-up, wrong identification of borrowers, extension of benami loans and so on. In addition to this, the lending of RRBs being exclusively to the weaker sections, low interest rate margins, high operating cost of handling small loans and no scope for cross subsidization further contribute to the poor economic viability of the RRBs (Shivamaggi, 2000).

In order to increase the world production, promote the world peace, free and fair improvement in trade and commerce of the world, raise the incomes of the
people of the various countries, encourage the good government and above all to stimulate economic growth, the World Trade Organization (WTO) was established on 1st January, 1995. Of course, the WTO replaced then General Agreement on Trade and Tariff (GATT). Even the WTO did not help the agriculture lending. ‘The WTO negotiations are to be translated to its advantage. It must garner the support of developing countries to press for genuine reforms, including substantial cuts in subsidies in developed countries and tariff reduction’ (Naik, 2003) It has been argued that Indian agriculture is not getting benefited from the WTO negotiations. Another major problem faced by India is the “cut-throat competition” from the foreign countries in the international market, as international prices have been artificially reduced for all commodities by the developed countries (Rajan, 2003). This is the major lacuna to India in the international market. The reform measures in trade and macro-economic policies are needed to encourage the long-term investment and technological change in the agricultural sector. Creating infrastructure in less developed areas, watershed development for raising yields of rainfed crops, widening of seed revolution to cover oil seeds, pulses, fruits and vegetables, agricultural credit and technological up-gradation in post-harvesting activities needed greater attention than ever before.

To keep up the momentum of growth, a careful economic evaluation of inputs like seeds, fertilizers, irrigation sources, financial support, etc., are of considerable importance. Out of all these things, adequate and timely provision of credit is a crucial input for increasing agricultural production and productivity (Reddy, 1990). As agriculture needs both investment credit and production credit for its development, in the context of providing adequate resources for agricultural development, both budgetary allocation and credit from Commercial and Co-operative Banks to agriculture turn out to be very important. The Government expressed concern at the falling public investment in agricultural sector. It is crucial for the development of infrastructure in the agricultural sector. The investment in agriculture declined from 1.6 per cent of GDP in 1993-94 to 1.3 per cent in 1998-99 (GoI, 2002)
Rakesh Mohan (2004) pointed out that agricultural credit as a percentage of agricultural GDP increased from 0.5 per cent in 1950-51 to 8.7 per cent in 2001-02. Agricultural credit as a share of total GDP also increased, but at a lower rate from 0.3 per cent to 2.0 per cent during the same period. What is significant is that agricultural credit as a percentage to total credit has been declining. The share of institutional sources in farmers' debt, however, increased from 31.7 per cent in 1971 to 63.2 per cent in 1981 and 66.2 per cent in 1991. Agricultural lending showed a lower ratio of 12.8 per cent of Non Performing Assets (NPAs), as compared to 20.6 per cent for small-scale industries, but higher than 9.4 per cent for non-priority areas (Venkitaramanan, 2004).

The share of capital formation in agriculture as a proportion to gross capital formation declined from 9.9 per cent in 1990-91 to 8.0 per cent in 1999-2000. The decline in capital formation has been more pronounced in the public sector, reflecting the persistent and large revenue deficits. The share of agriculture and allied activities in total Plan outlay declined from 61 per cent in the Sixth Five Year Plan period to 49 per cent in the Ninth Plan period. The share of irrigation and flood control in total outlay also shrunk from 10.0 per cent to an estimated 6.5 per cent over the Plan periods. While public investment in agriculture is declining, subsidies for agriculture are increasing. The increase in subsidies is concentrated on input subsidies, though food subsidies are also being incurred to maintain high levels of food stocks (RBI, 2001).

Even during the economic reform process, the agriculture sector has not performed well. Perhaps, the worst casualty of the reforms is the poor performance of agricultural credit delivery system (Deshpande, 2002). The cooperative credit institutions are in disarray, even in some states the co-operatives have been superseded (Hota, Sanju and Sharma, 2001). A great majority of RRBs are loss-making institutions and a sizeable number of rural branches of public sector banks are found to be in the same category because of default in repay the loans (Joshi, 1997). The Parliamentary Standing Committee has blamed the Government and RBI for the dismal performance of banks in agriculture lending and the continuous decline in the share of direct credit disbursement of public and private sector banks. In its report on "Credit Flow to Agriculture-Crisis in Rural
Economy and Crop Insurance Scheme," the Committee on Department of Economic Affairs has observed that most of the banks did not reach the prescribed target in the farm lending by March 2003. The Credit Deposit Ratio (CDR) in rural areas for both public and private sector banks was substantially low compared to urban and metropolitan areas. As of June 2003, this ratio was 42.7 per cent for public sector banks and 33.32 per cent for private sector banks. There is a lack of rural credit. Hence, credit policies have an important role to play in agricultural development given the high demand for credit and the limited access to formal credit, the degree of effective credit rationing is very high. (Swain, 2002)

Even after several measures, credit delivery system in agricultural sector was not meeting the requirements of the borrowers and the banks as well as per the expectation made by the Government. There were lots of difficulties faced by the farming community in availing credit facilities in appropriate time. Such delay in disbursement of loan has hindered the agricultural production. As a result, it affected not only the farmers but also had negative impact on the production facade.

Most of the erstwhile credit lending programmes suffered lots of weaknesses. When there was crop failure, the farmers were required to file separate and complete all formalities for obtaining loans, which of course involved a lot of paperwork in completing and procedure delay in getting loans. The farmers were required to submit no due certificate each time while getting fresh loans from the banking institutions. In view of several weaknesses of the formal credit lending system to the farmers, the Government of India thought and initiated in introducing credit card system for the benefit of the farmers, which is little bit similar to regular credit card system. Accordingly, Kisan Credit Card (KCC) system was introduced in the country since 1998 to overcome several problems faced with respect of provision of short-term credit to the farm sector.
1.3. Kisan Credit Card Scheme

The banking scenario in the country has been fast changing. The process of financial sector reforms highlighted the need for innovative credit interventions from financial institutions that are in crisis. Any such innovation should comprise adequate and timely credit coupled with operational flexibility to the borrowers and insurance protection. While the banks have changed their lending process over time, various credit delivery innovations in the form of Self Help Group (SHG) - Bank Linkage Programme for making financial services available to the poor have been introduced. In this direction, Hon'ble Union Finance Minister announced a 'Kisan Credit Card Scheme' to farmers in his budget speech for 1998-99. Then the Government of India in consultation with the RBI and NABARD started a pioneering credit delivery innovation Scheme in August 1998. NABARD formulated a Model Kisan Credit Card Scheme in consultation with major banks and circulated to co-operative credit societies and RRBs and by RBI to commercial banks (NABARD, 2001).

Credit card system is not a new concept in the field of agricultural credit delivery system in India. The scheme had already been introduced in a number of public sector banks in a few states much earlier. These schemes were niche-marketed and were exclusively preserved for the privileged class of farmers, but the small and marginal farmers did not have much access to them. Similarly, several public sector banks and co-operative banks were extending cash credit facilities to the farmers with a view to improve their access to credit. But, KCC scheme is intended to help only farmers for production in the agricultural sector.

KCC Scheme aims at providing adequate and timely credit to support from the formal banking institutions to the farmers for their cultivation needs including purchase of inputs in a flexible and cost-effective manner. It intends to accelerate the flow of credit to the farmers overcoming delays in sanction and release of loans. The borrowers' advantages are in the form of timeliness in availability of credit and reduction in interest burden due to flexible operation, while the implementing banks benefit by avoidance of repeat processing of loan documents every year and improvement in recovery.
It can be noted that KCC scheme has several advantages over the earlier system in provision of farm credit. The cards as envisaged under the scheme can be used like ordinary credit cards and have provisions such as revolving cash credit facility involving any number of withdrawals and repayments within the prescribed limit. The limit on credit is fixed on the basis of operational landholdings, cropping pattern and scale of production credit requirement. However, banks, on satisfactory operations on the limit, may enhance the limit, where necessary, at the time of renewal, keeping in view the increase in costs and additional activities, if any, undertaken by the borrower. Similarly, banks may also sanction additional term credit limit to the borrower, at the time of annual review/renewal of credit limits under the card. There is flexibility in repayment of loan and also repayment can be made through slips/cheques accompanied by card-cum-passbook. In the case of crop failure or damage due to natural calamities, the system allows the farmers to get their loans rescheduled. As per RBI (2004a) direction short term credit/crop loans as well as working capital for agriculture and allied activities would continue to be provided as revolving cash credit limit, repayable in 12 months. The term loan component will be repayable within a maximum period of 5 years (initially the card validity was up to three years), depending on the type of activity/investment, as pre-existing guidelines. All the credit card holders asked to renew their card every year, which means fewer formalities in completing the paperwork. Thus, it has lots of advantages, which tend to expedite the credit flow and reduce the cost of credit.

Since the introduction of KCC Scheme in 1998, there has been a rapid increase in the number of cards issued and also credit. It has been found that Commercial Banks, Co-operative Banks and RRBs have together issued 642.49 lakhs of Kisan Credit Cards up to 31st January 2006. Co-operatives accounted for 49.75 per cent, whereas RRBs and Commercial Banks have accounted for 12.32 per cent and 37.93 per cent, respectively. In order to motivate the banks and to support their efforts to generate greater publicity for popularizing KCC scheme, NABARD has been providing financial assistance to Co-operative Banks and RRBs with an allocation of Rs 6 crore and Rs 1.1 crore, respectively. To popularize this scheme, NABARD has launched 10 lakh Meghdoot Post Cards.
with a message of KCC to be distributed through rural post offices all over India.

The banks are also benefited in the form of reduction in workload for branch staff
by avoidance of repeat appraisal and processing of loan applications. The
transaction cost has reduced, fund can be utilized in a better way and also
recoveries of loans become easy. There is improvement in Banker-Client
relationships.

1.4. Research Issues

The agricultural credit delivery system in India has long historical
perspective. Several studies have been carried out to examine the level of
accessibility of the farming community to institutional credit from formal banking
agencies. Of late, the KCC scheme was followed to provide credit to the farm
sectors. Some of the important studies relating to the KCC were briefly reviewed
and attempted to identify the important research issues for the present study.

A study by Lobo (1999) found that the access to short-term credit increased
and enabled farmers to purchase inputs for agricultural development on time. Patel
(1999) explained the reason behind the innovation of KCC Scheme. He advocated
for positive involvement of village level Panchayat Raj institution in respect of
coverage of farmers under the KCC scheme. The scheme should be linked with
input delivery and marketing system with the special reference to reduction in
cost. Reddy (1999) identified that institutional credit was more likely to be
available for well-to-do farmers among the rural community and backward regions
have less access to institutional credit than others and the non-availability of
timely credit and the cumbersome procedures for obtaining credit are some of the
reasons attributed to introduction of KCC in 1998-99. Dodkey and Hanamashetti
(1999) analysed the role of NABARD in initiative in credit dispensation schemes,
one of them is KCC scheme. They observed the purpose of the scheme, features of
scheme, advantage of the scheme in flexibility in credit disbursement. They
advocated for linking the scheme in SHG programme.

Singh and Sagar (2002) found that the pace of implementation of the KCC
scheme is significant in some states like Andhra Pradesh, Bihar, Punjab, Haryana,
Karnataka, Maharashtra and Uttar Pradesh. For further they opined that in order to
facilitate backward and forward linkage of credit with production need, flexibility in KCC scheme is required. A study by Pegu (2003) observed that malpractices of the banks in granting of loans continued to practice. In the case of the KC cards, he found that banks were giving loans to farmers against their credit cards even after the expiry of the official date for sowing of crops. Such practices, he pointed out, led to diversion of funds for purposes other than sowing. According to the rules, the disbursement of funds has to coincide with the cropping season. He suggested that credit policy should not be confined only to production, but also extended to post-production processes activities.

A study by Poornima (2003) explained about how the usage of KCC is picking up. She observed the regional and bank-wise variation in issuing the cards. A study by Shete (2002) in his observation found that the KCC scheme by and large helped the farmers and bankers. Bhaskaran (2003) rightly pointed out that introduction of KCC scheme is innovations in the sustained agriculture credit; it is innovations like SHG, contract farming, etc., that is sustaining the credit flow. The banks can serve the rural poor through credit linkage of self-help groups (SHGs), and KCC system is suitable for income-generating activities for the benefit of SHGs and also importance in low-cost and no-cost deposits (Jain, Kushawaha and Srivastava 2003, Hegde 2004). Reddy (2004) highlighted the defects of agricultural credit delivery in terms of inadequacy, constraints on timely availability of credit, high cost, neglect of small and marginal farmers, low credit-deposit ratios and continued presence of informal markets. He also opined that KCC scheme is being improved and widened in its coverage, which is in the nature of clean overdraft for multipurpose use, including consumption. Prasad (2005) discussed about present needs of the deposits and advances products of the banking system. He argued to convert KCC into Automatic Teller Machine (ATM) KCCs, which will incur no additional cost.

Thorat (2005) observed that procedural delays, documentation complexities, poor health of the Rural Financial Institutions (RFIs) etc., are the barriers in credit access to the small and marginal farmers. He suggested that innovative credit products like SHG-Bank Linkage, Grameen Projects, Raita Mitra Groups, innovative credit cards (KCC, Grameen Credit Card, Bhumiheen Credit...
Card, Composite/e-enabled Cards, ATM, Smart Card etc.,) will increase the credit accessibility to the farmers. Further, he advocated innovative credit delivery mechanism through Gram Banks, Household Finances, Micro Financial Institutions, Farmer's Clubs, Village Development Boards, Finance through Post Offices, Internet kiosk, Credit Franchisee, Financing of Marketing & Producer Cooperatives, etc., would help the farmer community.

Bhandari, Debroy, Huang, Rozelle, Yang, (2006) observed that the implementation of the KCC scheme has resulted in an increase in the flow of credit to the agriculture sector and a substantial reduction in borrowing from the informal sector. The scheme has also benefited both farmers and bankers as there has been a significant saving in time and cost of credit delivery, reduction in transaction costs, better recoveries and reduction in the workload of bank branches. They concluded that “Kisan Credit Card has met all its objectives and is on its way to becoming a powerful tool in consolidating the banker-farmer relationship”.

A study by Jayasheela (2006) in Dakshina Kannad district in Karnataka found that as high as 91 per cent respondents were satisfied with time taken to advance the loans under KCC scheme, 79 per cent were happy with credit limit, 73 per cent accepted the present cost of accessing credit under KCC, 85 per cent felt no difficulty in repaying the loans. It was also observed that about 88 per cent of them agreed that their cropping pattern has changed due to KCC and also increase in agricultural production, 49 per cent farmers used the fund for land improvement and 6 per cent for adoption of new technologies. None of the farmer responded made bribery charges against the bank officers. Majority of the farmer expressed their happiness over the performance of the KCCs and also felt that their socio-economic conditions are improved. But apart from positive impact, as much as 45 per cent respondent demanded more funds for further improvement of their lands, 18 per cent felt functioning of KCC scheme is not satisfactory and about 11 percent expressed the cost of accessing cards should be decreased. A majority of non-beneficiaries felt about fear of repayment of loans under scheme and also majority of them were either illiterate or ignorant about the scheme. It is evident
from the review of the literature that most of the studies have observed the basic features of KCC and its different aspects.

But, many studies have not been thoroughly designed to examine the impact of credit under the programme on the various issues relating to the procedural aspect of the KCC, time taken for sanction of card and credit by different banking institutions for different type of farmers and social groups, cost of the credit borrowed from different banking institutions by different types of farmers social groups, credit utilization and credit diversion, need for additional credit for the purpose of non-farm needs, raising the credit limit and reactions from the banking institutions, what are the frequency of withdrawal and repayment of the credit, whether the dependence of the farmers on non-institutional credit lending agencies has declined or not due to the introduction of the KCC scheme and what are important suggestions that can be incorporated in the scheme so that sound credit delivery system can be established in the rural areas. On these issues many studies have not adequately focused upon to make the current KCC credit delivery system more of the people oriented and farm oriented and thus setting up the sound credit delivery system

Further, we do not find many studies examining the impact of KCC on cropping pattern, mechanisation of farm sector, production and yield, income from farm sector and other activities, consumption pattern of the sample KCC holders, investment patterns, pattern of unproductive expenditure, savings behavior household assets and acquisition of land after the introduction of the KCC scheme Therefore, there are many structural and institutional issues, which need to be addressed for stepping up agricultural growth by providing adequate and timely credit to the peasants Against this backdrop, the present study is designed with the following objectives and hypotheses
1.5. Objectives of the study

The objectives of the study are to:

➢ Review the existing studies focusing on institutional credit for agricultural development in India,
➢ Analyse the structure, credit need and growth of agricultural credit delivery system for agricultural development in India and Karnataka,
➢ Examine the role of KCC scheme in the agricultural credit delivery system, exploring more of institutional mechanism designed under the scheme to improve the existing rural credit delivery system,
➢ Analyse the impact of the KCC scheme on various aspects of the peasant communities including agricultural production and income, consumption pattern, investment and savings behavior and asset acquisition by the KCC holders in the study areas,
➢ Offer policy prescriptions to design appropriate and sound credit delivery system for faster growth of agricultural sector

1.6. Hypotheses

❖ Provision of adequate and timely credit under the KCC scheme tends to result in greater commercialisation of agriculture
❖ Yield per acre increases with timely and adequate provision of credit to the farmers.
❖ After the introduction of KCC scheme the average household annual income tend to increase
❖ Missutilisation of credit takes place even in the case of KCC scheme system
❖ KCC scheme has made significant positive impact on asset acquisition by the sample farmers in the study areas

1.7. Research Methodology

1.7.1. Nature and Source of Data

It is a modest attempt to understand the structure and growth of agricultural credit delivery system in India and Karnataka and how these credit delivery system have helped the farming community in meeting their credit needs over the years, in turn how these system have helped to enhance the agricultural production and what are the pros and cons of credit delivery system The study also looks into the structure and pattern of different credit delivery system in general and KCC scheme in particular.
Keeping these issues in view, the present study is based on secondary and primary data. The secondary data were collected from the published sources, namely, the RBI Bulletins, NABARD publications, Centre for Monitoring Indian Economy (CMIE) Reports, various Journals and Government Publications, etc. The data on agricultural credit, disbursement of KC cards and the amount sanctioned, etc., were collected at the all India level for all the states for the year 2005-2006. Similarly, the primary data were collected by canvassing interview schedule from 200 households, who were direct beneficiaries of the KCC scheme for the year 2005-06. The data were collected from the sample KCC holders before and after the provision of credit card. In order to make comparative analysis, the cross section data were collected from 15 non-KCC holders from each village, viz., altogether 60 non-KCC holders were interviewed. About 10 branch bank officials were met in order to collect the first-hand information of the KCC holders and also held detailed discussion with them regarding implementation and effects of the KCC scheme in Belgaum district.

1.7.2. Study Area and Selection Procedure

The present study was conducted in Belgaum district of Karnataka state. Belgaum district was chosen because it stands first in the issues of KC cards in the state. Two talukes were selected on the basis of card issued, one taluk which is having highest number of cards issued and the other one with lowest. Chikkodi taluk has issued highest number of KC cards and while Saundatti taluk has issued lowest in the district. After selecting talukes, two villages from each talukes were selected purposively for conducting primary survey. In Chikkodi taluk Kabbur and Soundalga villages were selected, where as Manoli and Teggihall villages were selected from Saundatti taluk. The main reason for selecting these villages was the existence of financial institutions which are dealing with KCC scheme namely, Co-operative Credit Societies, Karnataka Vikas Grameena Bank (RRB), Syndicate Bank (Soundalga) and Union Bank of India (Manoli).

The 200 sample farmers were selected for detailed study, which account for about 20 per cent of total beneficiary. Out of 200 selected sample households, 100 were belonging to Co-operatives, followed by 50 each from RRBs and
Nationalized Banks. Apart from this, 60 non-KCC holders were selected from the same villages in order to elicit their opinion about the performance of KCC scheme. These sample householders were selected randomly for in-depth primary study. The data were collected through structured questionnaire.

1.7.3 Sampling Design and Size

In the next stage, about 25 farmers from each category comprising of marginal (less than 2.5 acres), small (2.51 to 5.00 acres), medium (5.01 to 7.5 acres) and large farmers (7.51 and above acres) were selected. These sample households were selected on the basis of random sample technique. This means, 100 KCC holders were selected from each taluk and altogether 200 cardholders were interviewed by using structured interview schedule. The study was conducted during the year 2005-06.

In addition to the above, in order to collect the cross-section data, 15 non-KCC holders were randomly chosen from each village under the study. In all, about 60 non-KCC holders comprising of all categories of landholdings were interviewed in order to know their perception about the role and functioning and impact of KC cards on the farming community. In order to examine the changes that have taken place before and after the provision of KCC scheme, the collected data were analysed by using simple technique like percentages, averages, ratios etc. The findings of the study were presented in graph or line diagrams wherever appropriate.

1.8. Importance of the study

In the new millennium, the challenges in the Indian agricultural sector are quite different from those met in the previous decades. The growth of agriculture has also tended to slacken during the last five years. At the nation level, the agricultural growth declined to 3.1 per cent in 2002-03 from 5.7 per cent in 2001-02. This decline in primary sector also hindered the overall economic growth of the country (GoI, 2001).

The study has reviewed various policy changes in the banking sector in credit deployment for development of agriculture. An analysis pointing out the factors adversely affecting the policy in respect of credit lending in the agriculture sector...
may certainly help policy makers to step in with appropriate measures for provision of adequate and timely credit to the farmers and also to ensure provision of credit at lower cost and maximum recovery of the loan. Based on the study results, policy changes can be suggested to improve the operation of credit institutions. An analysis relating to access and impact of KCC scheme on agricultural production and on improvement of socio-economic status of the peasants belonging to different size of landholdings and also social groups (Schedule Casts, Schedule Tribes, Minorities and others) is an important contribution of the study to existing body of literature. The banking institutions accordingly can frame the appropriate policies needed to sustain the credit supply as well as the institutions.

1.9. Limitation of the study

As a matter of fact agricultural production is function of many variables. In our study we have taken only credit as the main input, which is determining the level of production in agriculture. Apart from this, the study in its present form suffers in terms of conceptual framework and procedure for data collection. The data needed for the study were collected from the same respondents before they got KCC. The data collected before the provision of KCC may not be accurate as the bulk of it depended on the memory power of the respondents. Due to the time constraint, the data were collected from only one district (Belgaum district). The results thus drawn may not be generalized. The data analysis by social groups was suffered from adequate representation from different social groups in the study areas. Hence, the results drawn across the social groups may not present the accurate impact of KCC scheme, but yet we can see the interesting results. Although the present study is based on primary data, the source-wise analysis was not attempted.

1.10. Organisation of the thesis

The study is organized into seven chapters. Chapter 1 provides the context, brief review of literature, research issues, objectives and hypotheses, database and research methodology. The review of literature covering several issues relating to the agricultural credit and KCC was presented in Chapter 2. The structure, credit
needs and credit flow for agricultural development covering the performance of KCC Scheme in India and Karnataka were analysed in Chapter 3. The profile of the selected area was described in Chapter 4. Chapter 5 analyses the role of KCC scheme in agricultural credit delivery system. The impact assessment of KCC scheme on the farming communities in terms of changes cropping pattern, yield, income, expenditure, investment and savings, asset acquisition by the KCC sample holders is analysed in Chapter 6. The important findings and policy prescriptions were summarized in the last Chapter.