ON GOING CROP LOAN SCHEME -
KISAN CREDIT CARD (KCC) : AN EVALUATION

6.1 : Introduction

6.2 : Kisan Credit Card (KCC)

6.3 : Performance of KCC scheme in Cachar

6.4 : Difficulties faced by the farmers in/borrowing from banks
6.1 INTRODUCTION

It is an established fact that low land productivity of small farmers is more a reflection of constraints other than just farm size. Inaccessibility to complementary inputs due to lack of institutional finance, cultivators' dependence on the private money lenders in a situation of asymmetric power relations and interlinked factor markets, all militate against achieving a high level of productivity by the small farmers.

There is no gainsaying that credit is one of the most critical inputs for increasing agricultural productivity. Indebtedness to institutional sources is viewed as an indicator of participation in the process of development. (Jodhka 1995).

6.2 KISAN CREDIT CARD (KCC)

Under the existing crop loan system, it has been observed that, the system does not have the desired flexibility in availing of loan as per the actual needs of farmers and also there is no adequate discretion to decide the repayment schedule depending upon the repaying capacity. Therefore, the Hon'ble Union Minister for Finance in his
budget speech on 1998-99, stressed the need for formulation of model scheme for issue of Kisan Credit Card (KCC) to farmers on the basis of their land holdings. The scheme was to be in the form of revolving credit facility allowing any number of drawals and repayments. Accordingly, a model scheme prepared by NABARD for issue of KCCs to farmers was circulated to commercial banks, regional rural banks and co-operative banks during August, 1998 for introducing Kisan Credit Cards.

6.2.1 OBJECTIVES OF THE SCHEME

Its main objective is to provide adequate and timely support to the farmers to meet their short term credit requirements. It also gives flexibility to farmers to withdraw and deposit as per their convenience.

The scheme was introduced in Cachar simultaneously with the country during 1998-99 and was expected to become popular among farmers. Commercial banks and Cachar Gramin Bank (RRB) have taken the task of implementation of this scheme. The main features of the scheme are as follows:

The following revised standing guidelines have been framed by RBI:

a) Eligibility:

i) Agricultural borrowers.

ii) Good track record for 2 years. Initially the scheme was introduced for those farmers who were eligible for sanction of credit limits of Rs. 5,000/- and above. It was decided in June 2000 to issue KCC for limits below Rs. 5,000/- to have wider coverage under the scheme.
b) **Pass Book**: Kisan Credit Card-cum-Pass Book will be issued.

c) **Nature of facility**: Revolving Cash Credit Limit.

d) **Number of withdrawals**: Any number of withdrawals and repayments; withdrawals within the limit.

e) **Accounted for under**: Agricultural Cash Credit.

f) **Credit limit (under the card)**: Fixed on the basis of operational land holding, cropping pattern and scale of finance. Also the entire credit requirements of the farmer for agricultural production and ancillary activities related to the same such as maintenance of agricultural machinery/equipment, electricity charges etc. for the full year. To some extent farmer’s contingent needs are also provided for.

g) **Drawal of funds**:

i) Now, only seasonal limits are fixed and drawing power is arrived at.

ii) Limit based on peak funds requirement. Contingent needs to be built into the limit at 20 per cent of peak limit. Max: Rs. 10000/-

iii) Withdrawal will be made through withdrawal slips accompanied by Kisan Credit Card Pass Book. (No cheque book is issued.)

h) **Security documents margin and discretion**:

i) Charges for issuing KCCs should be commensurate with the actual expenses and it should not be considered as a source of income. A fee charged, if any, for issue of a laminated photo card should not exceed Rs. 50/-.

ii) No service charges or inspection charges should be levied by
banks on KCCs with limits up to Rs. 25,000/-. (Sarda 2004)

i) **Validity:** 3 years, subject to annual review.

j) **Prudential norms:** Same as for agriculture cash credit.

k) If the card is lost, duplicate card can be issued after obtaining a letter and charging a fee of Rs. 50/-.

l) **Disposal of Application:**

i) Brochure of bank should display the benefits of KCC scheme and requirements to be fulfilled to become eligible for it.

   ii) Applications complete in all respects should be promptly accepted. A Kisan Credit Card should be issued to eligible borrowers within 15 days of the receipt of the application (SARDA 2004).

### 6.3 PERFORMANCE OF KCC SCHEME IN CACHAR DISTRICT

However, it is a matter of concern that when the national leaders were thinking of providing KCCs to all the eligible farmers by 2004, the progress of the scheme in North East as a whole and specifically in the district of Cachar is found to be very tardy. In the 10th Plan document on ‘Sectoral Policies and Programmes’ Vol. II, GOI, it was highlighted that “... the progress of scheme is dismal in the north east which is attributed to low level of loans issued to farmers availing crop loans from banks”. (10th Five Year plan, Vol. II, 2002-2007, p. 523).

Analysis of data in Table 6.1 regarding distribution of KCCs in Cachar corroborates the observation made in the 10th Plan.
### TABLE 6.1
AN OVERVIEW OF FLOW OF CROP LOAN SINCE 1999-2000 (CACHAR DISTRICT) THROUGH 'KCC' SCHEME

<table>
<thead>
<tr>
<th>YEAR</th>
<th>KISHAN CREDIT CARD (KCC) PHYSICAL</th>
<th>KISHAN CREDIT CARD (FINANCIAL) (Rs. in lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target (Bank)</td>
<td>Sponsored (Agr.)</td>
</tr>
<tr>
<td>1999-2000</td>
<td>950</td>
<td>294</td>
</tr>
<tr>
<td>2000-2001</td>
<td>998</td>
<td>1252</td>
</tr>
<tr>
<td>2001-2002</td>
<td>911</td>
<td>725</td>
</tr>
<tr>
<td>2002-2003</td>
<td>4460</td>
<td>5252</td>
</tr>
<tr>
<td>2003-2004</td>
<td>6558</td>
<td>5624</td>
</tr>
<tr>
<td>2004-2005</td>
<td>10700</td>
<td>6200</td>
</tr>
</tbody>
</table>

**Source:**
2. Lead Bank Office, UBI, Silchar.
3. Office of District Agriculture Office, Silchar.

Table No. 6.1 shows that there exists a large gap between the target and achievement of the KCC scheme. Whereas the amount sponsored by the Agricultural Department, Cachar during 1999-2000 stood at Rs. 20.3 lakhs, the amount disbursed was only 1.78 lakhs i.e. only 8.8 per cent of the sponsored amount was disbursed by the banks. Whereas the number of cases sponsored were 294, ultimately only 60 cultivators got credit. (Only 12.26 Ha (i.e. about 92 bighas of land) of Cachar district is covered by Bank Credit during 1999-2000, which had been far from satisfactory. (Bhattacharjee 2001).

The same trend has been observed till 2003-04. During 2003-04, inspite of the year ‘2003’ being declared as “AGRICULTURAL FOCUS YEAR” by SLBC, Assam 2003, there appeared a large discrepancy between the target and the final disbursement of credit. Whereas 6558 number of cards-distribution was targetted, 5624 numbers were sponsored and ultimately sanction was made to 1830 proposals, which
formed only 27.9 per cent of the targeted numbers.

Another finding is that on an average Rs. 8530.05 was sanctioned per KCC during 2003-04, but that didnot meet the requirements of the Rabi farmer. The disbursed amount was less (42 per cent) than half of the targeted amount. Another side of the picture is that the targeted amount itself also reflects the truth that even after six years of its inception, the KCC is still at an introductory stage in Cachar. Another disturbing fact is that it reflects demand of only 3.33 per cent cultivators in Cachar out of 1.69 lakh cultivators in the district of whom 93 per cent is small and marginal and landless farmers. There are two edged problems – (a) poor coverage of farmers as well as crop area (b) on the other hand, the disbursed loan amount is inadequate to satisfy the farmers’ requirement which is shown in table 6.2.

**TABLE 6.2**

**DISTRIBUTION OF THE KCC FARMERS IN THE SURVEYED CIRCLES AND PERCEIVED ADEQUACIES OF LOAN AMOUNT**

<table>
<thead>
<tr>
<th>Agriculture Subdivision</th>
<th>AEO Circles</th>
<th>No. of KCC Holders</th>
<th>Perceived adequacies of loan amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sufficient</td>
</tr>
<tr>
<td><strong>Silchar</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Katigorah</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Silchar</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kalain</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bihara</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borkhola</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sonai</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uttar Krishnapur</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Narsingpur</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Lakhipur</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banskandi</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rajabazar</td>
<td>9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Field Survey.

**Note:** Figures in the parentheses represent percentage of total KCC holders.

So, it is high time to analyse the working of the scheme in its totality in the district.
### TABLE 6.3

<table>
<thead>
<tr>
<th>CAUSES</th>
<th>CROP LOAN</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No of Non-KCC Farmers</td>
<td>Per cent of respondent</td>
</tr>
<tr>
<td>1. Unawareness regarding the scheme due to lack of contact with the government extension officials</td>
<td>102</td>
<td>36.4%</td>
</tr>
<tr>
<td>2. Fear of possible embarrassment by the bank officials.</td>
<td>46</td>
<td>25.8</td>
</tr>
<tr>
<td>3. Rejection of farmers loan application due to lack of savings in the bank and often without any genuine reasons.</td>
<td>42</td>
<td>23.6</td>
</tr>
<tr>
<td>4. Uneconomic land holdings by the farmers (less than 5 bigha)</td>
<td>32</td>
<td>18.0</td>
</tr>
<tr>
<td>5. Cultivation time is being wasted for getting loan</td>
<td>28</td>
<td>15.7</td>
</tr>
<tr>
<td>6. Low amount of loan / high transaction cost</td>
<td>33</td>
<td>18.5</td>
</tr>
<tr>
<td>7. Fear of paper works</td>
<td>35</td>
<td>19.7</td>
</tr>
<tr>
<td>8. Fear of inability to repay the loan amount</td>
<td>21</td>
<td>11.8</td>
</tr>
<tr>
<td>9. In capacity to give ‘consideration money’ for getting loan</td>
<td>36</td>
<td>20.2</td>
</tr>
<tr>
<td>10. Self contentment / lethargy</td>
<td>50</td>
<td>28.1</td>
</tr>
<tr>
<td>11. Easy approachability to the money-lender</td>
<td>45</td>
<td>25.3</td>
</tr>
</tbody>
</table>

Source: Field Survey (Pt. No. 2-11 per cent are calculated out of 178 aware FHH).

### 6.3.1 KCC – DEMAND FACTORS

An interim assessment of the working of the KCC scheme from 1999-2000 to 2003-04 in Cachar District reveals that there has been a
poor coverage of the scheme, client wise and in terms of quantum of loans also. There exists a wide credit gap in term of both supply as well as demand.

Our field survey revealed that out of 280 sample farm households, only 48 farmers i.e., 17 per cent of total sample farmers got crop loan under KCC scheme from Commercial banks including Cachar Gramin Bank during 2003-04.

The slow progress of KCC scheme and also poor off-take of credit can be attributed to both the demand constraints as well as supply constraints.

DEMAND CONSTRAINTS

The inadequacy of the agricultural bank finance may be due to a fusion of three sets of factors acting together as demand constraints. These are:

<table>
<thead>
<tr>
<th>ECONOMIC</th>
<th>BEHAVIOURAL</th>
<th>SOCIETAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Lack of Entitlement set</td>
<td>(a) Lethargy</td>
<td>(a) Lack of awareness</td>
</tr>
<tr>
<td>b) High transaction cost</td>
<td>(b) Self contentment</td>
<td>(b) Lack of education</td>
</tr>
<tr>
<td>c) Absence of title to the land</td>
<td>(c) Fear of punishment in case of non repayment</td>
<td>(c) Misinformation and or asymmetrical communication</td>
</tr>
<tr>
<td>d) High default rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Infrastructure gap etc.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The demand factors which contribute to the deceleration of forces operating on demand, such as, low demand and resultant low credit delivery climate, termed as demand constraints can be analysed as:
i) **Lack of entitlement sets:** ‘An entitlement, relation applied to ownership, connects one set of ownership to another through certain rules of legitimacy ... in a market economy a person can exchange what he owns for another collection of commodities.’ (A. Sen 1999)

As is clear from table 6.3 access to the loan market (includes the size of the loans) is systematically interlinked with the size of the borrowers' entitlement set. As many as 18 percent of farmers having small size of land holding fall short of the required eligibility for getting loan by the banks under the KCC scheme.

This finding re-establishes the observation made by Basu who expressed the view that “... access to the loan market (which includes the size of the loan) is systematically interlinked with the size of the borrowers' entitlement set'. (Basu 1999).

As is seen in table 6.3 out of 280 sample farm households, 36.4 per cent of the total farmers are unaware of the KCC scheme. Remaining 63.6 per cent though are aware of the scheme, only 27 percent of aware farmers got KCC during 2003-04. Out of them 19 per cent belong to big / medium land holders, 58 per cent are small land holders and 23 per cent are landless and marginal land holders. (Shown in Table 4.18 in Chapter 4).

Generally the Agriculture Department sponsors the cases for KCC in respect of farmers who possess at least 5 bighas of land. Bank authorities accordingly issue loan depending mostly on the report of Agriculture Department. In this connection, it may be mentioned that bank authorities apply their discretion for cutting down the amount on any ground.
Though at present KCC is admissible to every farmer with minimum land holding (having Land clearance certificate), but the bankers and agriculture department both are not sure of asset generation by the farmers with such a less quantum of land and as such generally the cases below 5 bighas are not entertained as is seen from field survey.

For this trend of activities both by Agricultural Department as well as by the public sector banks, the poor farmers are not getting the financial assistance under the KCC scheme, though number of KCC holders is still far below the target. KCCs are meant for assisting the poor farmers. But the intended beneficiaries are deprived of the loan. And it can be said that the marginal and small farmers in the district are ‘disadvantageously placed with regard to access to technology, capital and support from credit and extension facilities’. (ECRC 2001, p. 17)

The farmers are equally responsible for not getting production loan as per their requirements because of their ignorance, callousness and to avoid the paraphernalia associated with these sanctioning procedure. Interestingly, 50 farmers (i.e. 28.1 per cent) who reported that they did not need of bank finance also represented a large chunk of the defaulter farmers under earlier government subsidised schemes.

ii) **High Transaction Cost:** The Transaction costs of lending and borrowing are a major barrier to providing access to micro-finance services for the poor on a sustainable basis... For smaller loans, these transaction costs can be burdensome in relation to the value of the loan itself. (McGuire and Conroy 1997).

*Low interest on rural credit is a farce. The cost of small borrowers
sometimes happens to be Prime Lending Rate (PLR) plus 25 per cent (legitimate and illegitimate cost). The fact is that as pointed out by a high level committee on agricultural credit chaired by Mr. R.V. Gupta, a former Deputy Governor. (RBI, 1997)

Here in the district of Cachar apprehension of high transaction cost deters 18.5 per cent of sample farmers approaching the commercial banks for agricultural credit. The cost of transaction on average is as follows (made on the basis of interview with the KCC holder)

**TABLE 6.4**

**TRANSACTION COST OF KCC PER ACCOUNT (AS REPORTED BY THE KCC HOLDERS) TO BE BORNE BY THE FARMERS**

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>COST (IN Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Photo</td>
<td>30.00</td>
</tr>
<tr>
<td>2. Cost of getting Land Document Certificate from Circle Office</td>
<td>250.00</td>
</tr>
<tr>
<td>3. G.P. Certificate (by Secretary / President)</td>
<td>10.00</td>
</tr>
<tr>
<td>4. Cost for filling up KCC form</td>
<td>10.00</td>
</tr>
<tr>
<td>*5. For making estimation of the project (cost)</td>
<td>200.00</td>
</tr>
<tr>
<td>6. Cost of Judicial Stamp</td>
<td>40.00 (Rs 10x4)</td>
</tr>
<tr>
<td>7. Cost of Revenue Stamp</td>
<td>4.00 (Re 1x4)</td>
</tr>
<tr>
<td>8. Embossment Cost for Judicial Stamp</td>
<td>20.00</td>
</tr>
<tr>
<td>9. Cost of opening bank account</td>
<td>100.00</td>
</tr>
<tr>
<td>10. Transportation Cost (for going to circle office, G.P. Office, Bank) from date of application to disbursement of credit</td>
<td>200.00</td>
</tr>
</tbody>
</table>

**Total Cost:** 864.00

*In case of CGB, this cost is to be excluded as per statement of the beneficiaries*

*Source: Own collection as per Field Survey.*

As is clear from the table 6.4 the cost of getting KCC is
Rs. 864/- per account as reported by the KCC beneficiaries. In the present study area the amount of crop loan availed by the beneficiaries (under KCC) vary from Rs. 3000/- to Rs. 25000/-.

An in-depth study of transaction-cost reveals the various components of the total costs to the borrowers to be ‘exorbitantly high’. (Karmakar 1999). A careful analysis of transaction costs in the Cachar district reveals that these vary directly with:

i] Number of days taken for disbursal of loans from the time of application.

ii] Total numbers of visits to circle office, Gaon Panchayat office etc.

iii] Total number of visits to banks.

iv] Total amount of bank and administrative charges;

v] Total amount of consideration money.

Here the main components of borrowers transaction costs included namely documentation expenses, travel costs and incidentals. And the opportunity cost of time spent in negotiating the loan has been overlooked. Borrower transaction costs were estimated at Rs. 864 per loan account.

In the surveyed circles the total loan disbursement to the 48 KCC holders amounted to Rs. 4.32 lacs during 2003-04 (total credit). So taking Rs. 9000 as the average loan per loanee farmer the transaction costs accounted for 9.6 per cent, of the total credit which is too high. As many as 30 farmers (62.5 per cent) out of 48 KCC holders reported that in practice the transaction cost was even higher than the reported
amount if ‘consideration money’ of Rs. 500/- per account is included in the cost estimated. As shown in the table 6.4 the farmers struggle to fill in the complicated forms and wait for the sanction to come through, they have to take help of some middlemen who are conversant in matter of submission of their application to the bank officials. Some farmers alleged that some middlemen advise the farmers to provide some consideration money for influencing the officials for getting loan. This facts deters 20.2 percent farmers from going to the bank for availing the scheme. (Out of 178 aware farmers)

iii) **Unawareness regarding the scheme due to inadequate extension services**: Out of total Farm Household 36.4 per cent of farmers cited absence of extension workers in the area as the most crucial reason for their ignorance regarding KCC scheme. They considered it as the prime cause for credit gap in the crop loan. 56 per cent of sample farmers do not know the extension workers at all. But 20 per cent of them somehow managed to get the information regarding the ongoing credit scheme of the banks. But remaining 36 per cent who are generally the inhabitants of remote areas are having knowledge gap due to lack of contact with the extension agencies. (Table 4.23, discussed in detail in Chapter 4).

iv) **Absence of title to the land**: An area specific constraint is that many farmers are deprived of availing the benefit of the KCC scheme on the ground of ineligibility due to absence of title to the land. Oral lessees do not get any credit support from commercial banks.

In Katigorah and Kalain AEO Circles, 13.2 percent of sample farm households were found to be displaced person from erstwhile East Pakistan who were settled in waste cultivable land (including
evacuee land) and though they were in possession of the land since 1964, they are not given the status of land holders, rather they are treated as tenants and revenue is collected as per 'Touzi Bahir' account. Though each agricultural family was allotted 6 bighas of cultivable land, yet in terms of permanent holding rights they are not entitled to get the loan facility under KCC scheme.

Thus, complexity of land tenurial system and in many cases absence of proper ownership documents act as great hurdle on the way of extending the agricultural credit to a considerable number of needy small land holders.

v) Low level of credit-absorption capacity in the district: 'Lack of infrastructure facilities which are a hurdle in the way of augmenting credit' facilities (10th Five Year Plan, 2002-2007, Vol. II) is very much conspicuous in the district. Infrastructure support in the form of forward and backward linkages for agricultural activities is not well developed. Inadequate and erratic power supply, lack of organised markets, poor inputs supply, poor transport and communication all adds to the dimensions of the problem.

Cyclonic storms and frequent floods cause heavy crop damage, and occasional drought reduces the crop production. Apart from this, most of the cultivable lands remain fallow from December to April due to lack of irrigation facilities. Only about 0.3 per cent of cropped area is covered by irrigation facilities. It is estimated that the present rate of cropping intensity at 128 per cent can be increased up to 150 per cent by extending assured irrigation facilities. (Agriculture Status Paper, 2002-2003) which will help to increase credit absorption capacity of the district.
Farmers are not used to utilizing certified seeds. Further, there is no regular and timely supply of certified seeds. The use of certified seeds covers only 1.15% of the total cropped area.

The fertilizer consumption is only 31 kg/ha during 2003-04 which is very much less in the district of Cachar against national consumption level of 112 kg per hectare. The fertilizer distribution through departmental scheme was nil since 2000-01.

The limited use of modern technology, very poor irrigation facility and weak extension network are all constraining factors impeding the acceleration in the demand for production credit.

The agricultural activity in the district is mainly practised on traditional method and not on commercial line and hence the borrowers meet their credit requirements out of their own resources or borrowed from friends and relatives. In the present study it was found that 48 per cent of sample households resort to borrowing from non-institutional sources.

National Policies for lending appear to be unrealistic in view of poor infrastructure in this region. Consequently, indebtedness of cultivators is ever-increasing.

vi) Delay in sanctioning the loan: As per the guidelines issued by the Reserve Bank, all loan applications up to a credit limit of Rs. 25,000/- should be disposed off within a fortnight and those applications which are for above Rs. 25,000/- should be disposed off within 8-9 weeks. (Sarda / 2004, p. 25). However, in practice, banks are taking longer time in disposing off the loan applications as is clear from table 6.5
TABLE 6.5
TIME TAKEN TO OBTAIN THE LOAN (KCC) AFTER APPLICATION WAS MADE

<table>
<thead>
<tr>
<th>TIME TAKEN</th>
<th>NO. OF KCC HOLDER</th>
<th>PERCENTAGE OF TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 weeks</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>3 weeks to 6 weeks</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>6 weeks to 9 weeks</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>9 weeks to 12 weeks</td>
<td>46</td>
<td>95.8%</td>
</tr>
<tr>
<td>Above 12 Weeks</td>
<td>02</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Source: Field Survey.

Note: Standard time = Disbursement of loan amount within 15 days from the date of application.

Out of 48 KCC holders in Cachar during 2003-04, 95.8 per cent borrowers reported that the scrutiny of loan application and the disbursement of sanctioned amount of less than Rs. 25,000/- took 9 to 12 weeks and it was 12 weeks for 4.2 per cent borrowers. As a result, according to most of the borrowers, delay in disbursement caused delay in implementation of the project. And 18.8 percent borrowers reported that crop loan disbursed after the sowing seasons defeated the very purpose of the loan and ultimately they turned into ‘non-wilful’ defaulters. Gupta Committee (1998) observed “.... timeliness and adequacy of credit are critical in increasing the credit flow to agriculture.” (Gupta Committee 1998).
6.4 DIFFICULTIES FACED BY THE FARMERS IN BORROWING FROM BANKS:

The majority of respondents expressed satisfaction regarding the terms and conditions of Kisan Credit Card (KCC) scheme; but they experienced certain difficulties in securing loans (as shown in table 6.6).

Some of the farmers (25 percent) told that when they approached the Bank officials for getting the loan, the response of the bank officials were indifferent towards them. Some borrowers (25 per cent) hold the opinion that the bank officials who do not belong to the area are incapable to understand the local problems and hence they are not willing to help the farmers. A considerable number of farmers i.e. 95.8 per cent of beneficiaries reported that they had to waste their time and money due to the repeated visits to the banks, circle office and G.P.
Office. They hold the view that they cannot afford to waste a day's labour as well as money to visit bank repeatedly for getting quite insufficient amount of loan after going through cumbersome procedural paper works. Out of 48 KCC holders, 54.2 per cent farmers had to bear the strain of giving other collateral security (Fixed Deposits etc.) for the credit, whereas 58.3 per cent borrowers raised questions regarding 'consideration money' ranging from Rs. 200/- to Rs. 500/- without which no negotiation was possible relating to credit. (Table 6.6)

From the analysis of data on demand side, the important determinants of demand for credit appeared to be

i) Being a non-defaulter (of previous scheme)

ii) economic land holdings (i.e. 5 bighas and more) with title to land.

iii) Gross Cropped Area

iv) Increased use of purchased inputs and improved mechanisation.

v) Infrastructural facility.

vi) Ability and willingness to bear high 'transaction cost'.

These factors are found to have significant implications for both the amount and type of credit requirements by the farmers. Regarding 'rate of interest', it was found that the demand for crop loan is interest inelastic in Cachar in all the crop season. (Dey and Rakshit, 2003).
6.4.1 SUPPLY CONSTRAINTS

The slow progress of credit disposal by the Commercial banks can be attributed to the following factors:

i) Personnel : Areas of concern - Many branches of the banks are suffering from poorly motivated and inadequately trained staff. Staff strength seldom matches the expected workload. While the officials of SBI reported that due to computerisation, there are no problems of under staffing, but many rural branches of CGB, UBI etc. have the problems of acute staff. The bank staff posted in rural branches serve unwillingly, out of the seer necessity of completing the minimum term of rural posting and they hardly reside at the place of their posting.

According to the report placed before the special SLBC meeting of North Eastern Region, one of the region specific problems of Banks is high administrative cast, which is due to several factors. ‘Cost related to transfer of officials on completion of their stay in the region for every two years is huge and unavoidable.’ (NEIBM, 2000) Further, staff selected / posted from outside the region are not willing to come to the region. The local zonal / regional offices are heavily dependent on deputationists from outside to manage branches (Ibid). This gives birth to apathy and callousness on the part of the bank personnel.

ii) Communication gap between the banks, extension agencies and the farmers: This is the result of lack of effective linkage between the bank officials as well as extension staff of the Agriculture Department on one hand and the farmers on the other with regard to educating the farmers of the use of bank credit for production purposes.

Now almost in all banks the post of field officers have been
abolished or going to be abolished. Consequently the constant touches with the rural people are not possible. Their various problems in the agricultural matters are not made available to the banks as done before by the Rural Development Officers (RDOs). The problems get more acute as the officials of the Agriculture Department keep no liaison with the farmers of the most of the villages, specially with the farmers of the remote villages. So the farmers do not dare undertake the troubles for such bank loan.

iii) **Attitudinal problem of the bank officials:** Some farmers do not like to face the troubles of approaching the bank because the bank officials always don’t welcome them for providing necessary assistance. So out of fear of embarrassment in the bank premises by the bank officials, about 26 per cent farmers prefer not to go to the banks. (Table 6.3)

iv) **Disbursement of insufficient loan amount in instalment:** The loans sanctioned to the farmers (under KCC the scheme) by banks are disbursed on instalment basis (generally in three instalments) resulting in constraints in the use of fund. The insufficient amount of credit led to diversion of loan in many cases as reported by 18.5 per cent of the farmers. System of disbursement and loan amount sanction limit need to be reviewed. (Table 6.3)

The applications of eligible borrowers are rejected by the banks on ridiculous ground of bad track record of credit worthiness of farmers of a particular locality to which they belong.

v) **Rejection of loan applications without any genuine ground:** 23.6 percent prospective borrowers alleged that the commercial banks rejected their loan applications without sufficient and genuine reasons.
In some cases applications were rejected by the banks on the apprehension of misutilisation of credit.

This finding is in consonance with the observation made by General Manager, RBI in the SLBC meeting (2003). Shri Murari, Swarup, G.M. RBI expressed concern (in the SLBC meeting for Assam held at IIBM, Guwahati on 17.01.2003) that the application of prospective borrowers under different schemes, were rejected and returned by some banks without assigning any reason. The General Manager requested all the banks to act on the applications promptly and in case of rejection, the applications should be returned promptly, giving valid reason. Shri Swarup stressed further that training programme for sensitisation of prospective borrowers under government sponsored schemes and KCC should be organised on the lines of Rural Development and Self Employment Training Institute (RUDISETI) which had been the initiative of Canara Bank, Syndicate Bank and a few NGOs. He also felt the need for training of functionaries of the banks at grassroot level on various aspects of these schemes as well as the implementation process.

vi) Fallacy in the Lead Bank scheme: Under the decentralised credit planning process District Credit Plan (DCP) is formulated with a coordinated discussion between banks and state governments functionaries operating in the district which is almost formulated on hypothetical basis. Although the DCP underwent several changes over the period, these plans essentially remained as an annual budget allocation plan of every bank, divorced from the ground level potential / absorption capacity. The DCPs thus became ‘supply oriented’ documents for allocation of resources amongst the bankers instead of
vii) **The Commercial Banks’ contribution to Rural Infrastructural Development Fund (RIDF):** Indian Commercial banks are required to advance 18 per cent of their net credit to agriculture (RBI). The proportion of direct credit to agriculture had reached a maximum of 15 percent in 1991 and was around 13 per cent during 2000 (ECRC, 2001). *If the Commercial Banks fail to meet the required level of credit to the priority sector / agriculture, they have to make deposits into the Rural Infrastructure Development Fund (RIDF) with NABARD, which is considered indirect lending to agriculture. The Commercial Banks’ contribution to RIDF amounted to 2 per cent of the net bank credit by March 2000 and formed the bulk of their indirect lending to agriculture. Quite clearly, they have found contributing to RIDF to be a far earlier way of meeting the mandated level of lending to priority sectors.* (Ibid)

RIDF offers attractive interest rate of 10 per cent under RIDF VII. Whereas the Commercial Banks are getting 8 per cent against lending under KCC scheme. This high interest earning, without any risk and transaction cost, has acted as an incentive for banks not to achieve the agricultural sector lending target*. (ECRC, 2001, p. 60)

Thus the in built deterrent in the NABARD guidelines provide an easy escape root to the bank to shirk the responsibility of fulfilling the target of agricultural lending.

viii) **Pilferage in the system of disbursement:** The actually disbursed loans don’t reach the ultimate beneficiaries – as intermediaries do not ensure the 100 per cent receipt of loans by the borrower.
In the study area 8 per cent of beneficiaries of earlier 'Government sponsored schemes' complained that they were deprived of the subsidy portion, whereas at present under the KCC scheme, out of 280 Farm households, 21.3 per cent of the prospective beneficiaries appear to have been convinced that after much trial and tribulation they may not get sanctioned amount of loan without sacrificing a portion of the loan amount and also of their valuable productive time.

ix) **Unawareness:** Inspite of as many as 13 awareness camps held within a span of one month period, during 2003, Nov.-Dec., by the Lead Bank, Cachar, it was found that 36 per cent of the total 280 sample farmers are not aware either about the KCC or about such camps. This speaks about the motivation of the motivators and the inherent handicap of the campaign mechanism, coupled with the callousness of the farmers.

x) **Large Number of small holdings:** The main structural problem of Indian agriculture is that in addition to the very large number of small and marginal farmers, a substantial acreage, nearly 36 per cent of the total cultivated area, comprises holdings of less than 2 ha. Reaching such large number of clients is a challenge for the rural financial institutions (Ibid, p 10)

Cachar is no exception to the main structural problem of Indian agriculture. It is worth mentioning here that in the district of Cachar, the average size of land holding is 0.25 ha in 2002-03 (status paper, Agr. Deptt Cachar, 2002-03) as against 1.17 ha in the state and 1.57 ha (1991) in the country as a whole. The marginal and small holders comprise about 93 per cent of total cultivators, whereas medium and big farmers comprise only 7 per cent of the land holders. It is very
difficult to cover such a gigantic clientele by the banks.

xi) **Non-Stabilisation of Service Area Monitoring and Information System (SAMIS):** SAMIS was introduced in the year 1991 in the district along with the state of Assam. The rate of submission of Lead Bank Returns (LBR) by the bank branches to the Lead District Manager in the district continued to be poor. SAMIS aims at fast flow of information from branches and quick consolidation and analysis at the district level of the computerised data. The branches have to submit Lead Bank Returns (LBR) showing target, disbursement, recoveries and outstanding loans. Non-submission of LBR in time, results in the preparation of Annual Credit Plan on a hypothetical basis and as such ground level credit requirement cannot be ascertained properly.

xii) **High incidence of defaulters:** One important requisite for eligibility for getting a KCC is that the applicants’ track record should be clear, i.e. he should not be a defaulter. It is observed that such applicants are hardly found. Pumping in of forced loan money repeatedly in the past to fulfil the targets under various subsidised Agricultural Developmental Schemes simply increased the number of defaulters among the sample farmers. Out of 154 borrowers, 61.9 per cent loanee farmers are found defaulters under these schemes in this survey. Thus vitiated recovery climate in the district has created a perception of extraordinary risk among the bankers. The poor recovery has adversely affected recycling of loanable funds. The legal recovery mechanism is also not efficiently working.

Lack of farmers’ awareness regarding ‘compromise settlement’ or ‘one-time settlement’ for clearing the old loan and take the advantage for the new loan, results in the increase of un-disposed cases.
Two paradoxes seem to operate in the overall working of the agricultural finance by the banks.

(a) The policy makers, due to their political compulsion frame subsidised farmers'-friendly schemes. On the other hand, under the regime of liberalisation and globalisation there has been a trend of gradual reduction of subsidies on fertilizer, seeds etc. by the government.

(b) The government policy warrants the banks to increase credit in the farm sector. On the other hand application of 'Prudential Norms' to the banking sector has made the bankers sensitive. (NABARD 2003). The entire focus of banking sector has shifted to reduce the Non-Performing Assets (NPA), which are very high for the banks in Assam as a whole as also in the Cachar district in particular. Most of the bank branches operating in the state are struggling for attaining long-term viability.

Moreover, another major problem has to be faced by the banks in successfully implementing such schemes is due to 'demand constraints', because ‘... acceleration in agricultural production, together with qualitative changes in it has significant implications for both the amount and type of credit requirements.’ (ECRC Report 2001, p. 11)

The scheme KCC, to raise agricultural productivity specially of small farmers by providing them institutional finance has suffered because of failure to provide adequate insurance against the risks of crop shortfalls due to drought or flood.
Though the Government of India has introduced National Agricultural Insurance Scheme (NAIS), which is also accepted by the State (Assam) Government, yet unfortunately, the farmers of Cachar district are totally deprived of insurance facility for crop damage.

Farmers are not apprised of the facilities of the crop insurance. KCC holders automatically come under the crop insurance scheme "The Rashtriya Krishi Bima Yojana" or National Agricultural Insurance Scheme (NAIS) which provides comprehensive risk insurance against yield losses viz., natural fire and lightning, hailstorm, flood, drought etc. Yet, unfortunately the farmers of Cachar district are totally deprived of insurance facility for crop damage. The district witnesses frequent and widespread occurrence of flood almost every year, resulting large scale damages to property and standing crops. But the farmers of the district are deprived of the benefits of this scheme, due to non-submission of proper statistics regarding yield data by the concerned departments which can reflect their losses (proper data of the notified area) to the insurance company. This factor also acts as a disincentive to many farmers for taking KCC for production purposes. The departments concerned should take necessary steps for proper implementation of this crop insurance scheme amongst the farmers.

The findings in the district level (Cachar) corroborates the observation made in the 10th Five Year Plan, Vol. II, p. 523 (2002-2007), that "The progress of the scheme is ... dismal in the North East."

It is worthmentioning here to quote the views of the farmers during the survey period (2003-2004); that There is nothing wrong with the concept perse. The scheme is good in its objectives, terms and conditions, but the problem lies in the implementation aspect of the
scheme at the ground level' (opinion of farmers in study areas in Cachar district).

It may finally be concluded from the analysis that although the KCC scheme is a novel innovation in the field of Agricultural finance to the small farmers aimed at doing away with the loopholes inherent in the traditional system of production credit in farming, the scheme has not been successful in achieving the targeted goals.

Due to various bottlenecks in the operational aspect of the scheme as evident from the analysis, its implementation, which includes the denial of loans to eligible farmers, faulty setting of credit limits, inadequacy in terms of timeliness, quantity of loan and accompanying extension guidance, farmers all over the district, seem to place greater reliance on other sources like private money lenders from where they are able to secure working capital.

Thus the benefit of huge fund allotted for the agricultural development in rural Assam, of which Cachar is also a part, is not trickling down to the intended beneficiaries.

NOTES:

1 National Agricultural Insurance Scheme (NAIS): A new crop insurance “The Rashtriya Krishi Bima Yojana” scheme viz. (NAIS) announced by GOI, covering all food and non-food crops, is being implemented by GIC of India covering all States and UTs. All farmers who avail loan from financial institutions are covered under the scheme and it is optional for non-loanee farmers. The scheme provides comprehensive risk insurance against yield losses viz., natural fire and lightning, storm, hailstorm, flood, cyclone, inundation and landslides, drought and dry spells and pests diseases etc.

Sum Insured: The crop can be insured up to the value of threshold yield of crop at the option of insured farmers. The farmer has the option to increase the coverage up to 150 per cent of average yield on payment of extra premium.

With the formation of the Agriculture Insurance Company of India Ltd. (AICI) from Dec. 2002, NAIS is being implemented through it.

The scheme was implemented in Assam from Rabi Season, 1999-2000.
One time settlement scheme for small and marginal farmers

Reserve Bank has advised banks to formulate guidelines with the approval of their Board of Directors on one-time (OTS) for small and marginal farmers, who have been declared as defaulters as on June 24, 2004 and have become intelligible for fresh credit.

Accordingly, banks have formulated OTS guidelines with the approval of their Boards giving details of settlement formula, sanctioning authority and procedure to be followed. All applicants for OTS, received from defaulters should be processed within one month of their receipt. Banks should ensure that the settlement is done without discrimination and in a transparent manner so that farmers can access fresh credit.

Compromise Settlement: Compromise will be a negotiable settlement with the borrower, the Bank will endeavour to recover its dues to the maximum extent possible.

The value of security, available for the advance will determine the compromise approach as well as the quantum of specific the banks will be prepare to make.

At least 5 per cent of the outstanding should be deposited initially by the borrower as taken of its earnestness to pursue the compromise settlement.

The Bank will endeavour to get one lump sum payment agreed to, otherwise 40 per cent of the amount (including the 5% initial deposit) should be paid immediately. The balance amount should be paid within 12 months. Interest has to be paid on the instalments as per agreed rate. Concessions can be considered as under:

i. Waiver of penal interest, if charged.
ii. Waiver of or reduction in the rate of interest, from the date the account became sick.
iii. Partial or complete waiver of interest, (From the date the account became sick) charged / accrued after the unit ceased functioning.
iv. Remission of a part of the principal dues, in addition to partial or full remission of interest.

The basic approach is the opportunity cost of funds that would be recovered from the borrowers immediately vis-a-vis the funds that could be collected from him at later date. (Banking Guide)

• Credit risk, measures the portion of the loan that is exposed to default risk, that is, if the loan is not fully secured by collateral against default risk, then the portion which is not secured would be exposed to credit risk. (Santanu Basu, 1999).

• Touzi Bahir Revenue: The term 'Touzi' means 'patta'. The land which is outside the patta land is known as Touzi Bahir land. 'Touzi-Bahir Revenue' is a fine imposed by the Govt. on illegal occupants of the khas land of the government. If for three consecutive years the occupants pay Touzi Bahir Revenue on the allotted land then they are given 'Eksona Patta' by the government. If this system continues for some more years, they may be considered for giving 'Meyadi Patta'.

• Government of Assam in the year 1964, requisitioned about ten thousand bighas of evacuee land in Cachar district for settlement of migrants from erstwhile east Pakistan who came over to Cachar as 'refugees'. These lands spread over a large area of Katigorah Revenue Circle area. Relief and Rehabilitation department had given them settlement on the evacuee land
and other khas land. The evacuee land were distributed among refugees in Katigorah Revenue Circle. Also garden surplus land and khas land were distributed to other refugees at Silcoorie, Jirighat, Thaipuragar, Doloicherra, Amaranagar of Sonai and Lakhipur areas. These refugees, as mentioned above were not illegal occupiers (as Jabardakhalkaries of West Bengal). They were given allotment of land some 35-40 years ago and during this long period they made these lands usable by their manual labours and also investing their small money in almost all cases. It is clear, these refugee people are not to be treated as ‘floating population’. Since the days of allotment, these poor people are continuously residing there and as such their names are also entered in the electoral roll. So they are also entitled to avail of the facilities provided by the commercial banks, working nearby without questioning the admissibility of the cases, because of their non-possession of pattas. They are allottees as per govt. orders and they are in the land for about 40 years or so. They are not in illegal possession of the lands they hold. Simply govt. is to regularise their cases. Bank may request the occupiers to apprise them of the orders of allotment for their total satisfaction in the matter of issuing agricultural loan etc. to these sector.