KISAN CREDIT CARD: A BOON TO AGRICULTURAL FINANCING

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Abstract

The purpose of this paper is to provide a detailed overview of Kisan Credit Card (KCC) as an instrument of agricultural financing. Agricultural operations in India are complex, diverse, erosion prone, characterized by low levels of productivity and low input usage. The emergence of Green revolution in India in the late sixties has radically changed the character of Indian agriculture. The paper focuses on role of agricultural credit and its status in India. The status of kisan credit card as an instrument of agricultural financing is getting into limelight as an essence of this paper. Various benefits of KCC for farmers as well as banks are discussed too.

Keywords – Kisan credit card, Agriculture credit, Agricultural financing.

Introduction

In the words of Lord John Boyd Orr, the first Director-General of FAO in 1948, '*increase in agriculture production is possible through modern methods. But these advances in science will be useful, unless there is enough good land for farming, if the soil on which all agriculture and human life depend is wasted, then the battle to free mankind from want cannot be won*'. As in 2011, India's arable land area of 159.7 million hectares is the second largest in the world after U.S.A. and its gross irrigated crop area of 82.6 million hectares is the largest in the world._In 2015, the food grain production has reached a total of 300 million tonnes with a growth rate of 2-5% per year. Agriculture sector also plays a magnificent role in the socio-economic fabric of the J&K state, as it provides livelihood to 80% of the population, generates 49% of employment, accounts for 27% to the state income and is an integral part of the overall rural development. Its share in GDP (Gross domestic product) is nearly 13.9 per cent in FY 14.

Need for Agriculture Credit

Finance is vital for growth and sustainability of agriculture. Murray (1953) defined agricultural finance as "an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society's interest in credit for agriculture". Tandon and Dhondyal (1962) defined agricultural finance "as a branch of agricultural economics, which deals with and financial resources related to individual farm units". Warren F. Lee et al defined agricultural finance as, 'the economic study of the acquisition and use of capital in agriculture". It deals with the supply of and demand for funds in the agricultural sector of an economy.

The growing tendency among the farmers to replace the traditional farm practices with scientific and modern practices, which is reflected by the inputs i.e. use of high yielding varieties of seeds, use of chemical fertilizers, plant protection chemicals, irrigation, farm machinery and equipments etc. require heavy financial investment, which the majority of farmers cannot afford from their own savings. Therefore, they have to depend on borrowed funds. There are some other activities which are operated by the agriculturists and that are termed as non-farm sector activities or diversified activities like poultry, dairy, horticulture, floriculture, mushroom cultivation, bee keeping etc. For acquiring the essential inputs and for financing such non –farm activities, the Indian farmer needs credit. Also, Indian agriculture is characterized by low productivity, with average crop yield well below world levels. Variability in rainfall results in wide variations and instability in yields.

The magnitude of degradation has further multiplied with population growth, poverty, absence of adequate investment and appropriate management practices to augment & conserve natural resources. To transform rainfed farming into more sustainable productive systems and to support population dependent upon it, high priority has to be accorded to agriculture finances. Adequate and timely availability of institutional credit, a priori, plays a pivotal role in agricultural development, particularly in enhancing its productivity and improving the living standard of the peasant communities. It plays an accelerator role in the agricultural development if it is adequate in quantity, cheap and timely provided (Belshaw, 1931; Galbraith, 1952; Schultz, 1964). Credit is not only a critical input in agriculture but also an effective means of economic transformation of rural areas. Increasing commercialization, diversification and capitalization through the use of modern technologies, driven largely by the forces of globalisation, ipso facto, have increasingly enhanced the credit needs of the peasants (Gadgil, 1994; Khan, Terwari and Shukla, 2007). The marginal and small farmers who are the main characters of agrarian structure (accounting for more than 82 per cent), cannot afford to invest back in agriculture. Ensuring adequate and timely access to institutional credit and improving the efficiency of its delivery system for augmenting agricultural production, has, therefore, been an area of constant focus in the development paradigm of rural economy in India. Notwithstanding the rapid progress in the rural credit delivery system ever since the 1970s, a great majority of the farmers, especially marginal and small farmers, had limited access to timely and adequate institutional credit and continued to be the victim of "indebtedness". There is a problem if the credit is not provided and there is also a problem if the credit is provided. "Credit, as an old French proverb says, supports the farmer as the hangman's rope supports the hanged" (RBI, 1951). Similarly, Darling's statement (1925) that "the Indian peasant is born in debt, lives in debt and dies in debt," still remains true for a great majority of the peasant communities in rural areas. The problem of indebtedness not only remains true today but it has been aggravated further in recent years. Despite several efforts were made to ensure adequate and timely availability of institutional credit for agriculture by constituting many Working Groups/Task Force/Expert Committees; credit inadequacy, constraints in timely availability, neglect of small and marginal farmers, high cost of credit and low credit deposit ratios continue to be the major cause of concern. In the continued efforts to ensure adequate and timely credit, the financial sector reforms were also introduced in the early 1990s. The financial sector reforms included various measures in the area of agricultural credit such as deregulation of interest rates of Co-operatives and RRBs, regulation of lending rates of SCBs for loans more than Rs. 2 lakh, recapitalization of selected RRBs, introduction of prudential accounting norms and provisioning requirements for all the formal credit lending institutions and introduction of Kisan Credit Card (KCC), among others. The prime objective of financial sector reforms was to improve the allocative efficiency of resources, ensure financial stability and maintain confidence in the financial system.

Agriculture credit is needed by farmers for following purposes:

a. **Purchase of new inputs**: The farmers need finance for the purchase of new inputs which include seeds, fertilizers, pesticides, irrigation water etc. If the seeds are of high yielding variety and other modern inputs are made available to the farmers, they can increase productivity not only of land but also of labour.

b. **Purchase of implements**: Credit is required by the farmers for the purchase of tractors, threshers, harvesters, water pumping sets etc. The use of appropriate machinery in land will increase production by growing more than one crop on the same piece of land at the same time.

c. **Better management of risk**: Credit enables the farmers to better manage the risks of uncertainties of price, weather etc. They can borrow money during raining days and pay back the loans during peak years of crops.

d. **Permanent improvement in land**: Credit also helps the farmers to make permanent improvements in land like sinking of wells, land reclamation, horticulture, rotation of crops etc.

e. **Better marketing of crops**: If timely credit is available to the farmers, they will not sell the produce immediately after the harvest is over. Credit enables the farmers to withhold the agricultural surplus and sell in the market when prices are high.

f. **Facing crises**: The credit is required by the farmers to face crisis. The crisis can be caused by failure of crop, draught of floods.

g. **Balanced development**: Agricultural sector generally remains neglected compared to industrial sector in the country. For balanced development, it is essential that credit should be provided at concessional rates to the agriculture sector so that it should also expand and help in "take off" process of the country.

1.3 Agricultural Finance in India

Three types of credit are available to an agriculturist:

a. **Short-term credit**: The short term credit ranges up to one year.

b. **Medium term credit**: The medium term loan extends from 1 to 5 years.

c. **Long term credit**: The duration of long term credit exceeds five years.

The financial system for agriculture in India is characterized by the multi-agency approach i.e. non-institutional or unorganized agencies and institutional or organised agencies. Non-institutional sources include:

a. **Money Lenders:** There are two types of money lenders in rural areas- Agricultural money lenders and professional money lender. Agricultural money lender's main occupation is farming and money lending is secondary one. Professional money lender's main profession is money lending.

b. **Land Lords:** Small farmers and tenants rely on land lords for finance to meet out their productive and unproductive expenses. This source of finance has all the defects associated with money lenders.

c. **Traders and Commission Agents:** They mostly finance for the cultivation of commercial crops like sugarcane, cotton, ground-nut, tobacco, onion, etc.

d. **Relatives:** Farmers borrow from their relatives for temporary exigencies. It is simply a mutual help.

The **major institutions** supplying credit to agricultural sector are:

a. Government,

b. Co-operatives,

c. Commercial banks,

d. Regional Rural banks &

e. Reserve Bank of India.

Status of Agriculture in J&K and District Kathua

The Jammu and Kashmir State is basically an agrarian state and agriculture is the main stay of the State's economy. Geographically, the State of J&K, lies in the north of Indian Union and extend from 32—17' to 37—50'N latitude, from 72—40' to 80—30'E longitude. It consists of three regions namely, Jammu, Kashmir and Ladakh. Jammu division is located between an altitude of 300 meters and 4200 meters above mean sea levels. Around 80 per cent of the population in the state gets livelihood directly or indirectly from the agriculture and allied sectors. Wheat, paddy and maize are the major crops of Jammu region. The total area (ha.), net area sown (ha.) and net area irrigated (ha.) of Jammu division is 1794598, 392910 and 107171 respectively. Out of total area of 2415801 hectares of Jammu and Kashmir, the net sown area of Jammu is 392910 hectares and the net irrigated area is 107171 hectares.

Agriculture plays a vital role in the economy of the district Kathua. As per revenue records, the district has a reporting area of 2.65 lakh hectare, out of which 0.45 lakh hectare is under agricultural use, 0.46 lakh hectare constitute the land under non-agricultural use, 0.34 lakh hectare constitute barren and uncultivable land, 0.07 lakh hectare is under culturable waste, 0.10 lakh hectare is under miscellaneous trees, 0.10 lakh hectare is under permanent pastures, 0.02 lakh hectare is fallow land other than current fallows, 0.22 lakh hectare area is under current fallow and net sown area is 0.61 lakh hectare during 2012-2013. Major crops of the Kathua district are Wheat, Paddy and Maize. Wheat crop covered 52493 hectares of area and paddy covered 31861 hectares of area, while 19620 hectare area was covered under Maize. The area covered under pulses was 4045 hectare, vegetable and fruits (320 hectare), millets (3207 hectare) and spices and condiments (301 hectare) during 2012-2013. The area distribution is shown below in pictorial form in figures 1.1 & 1.2.

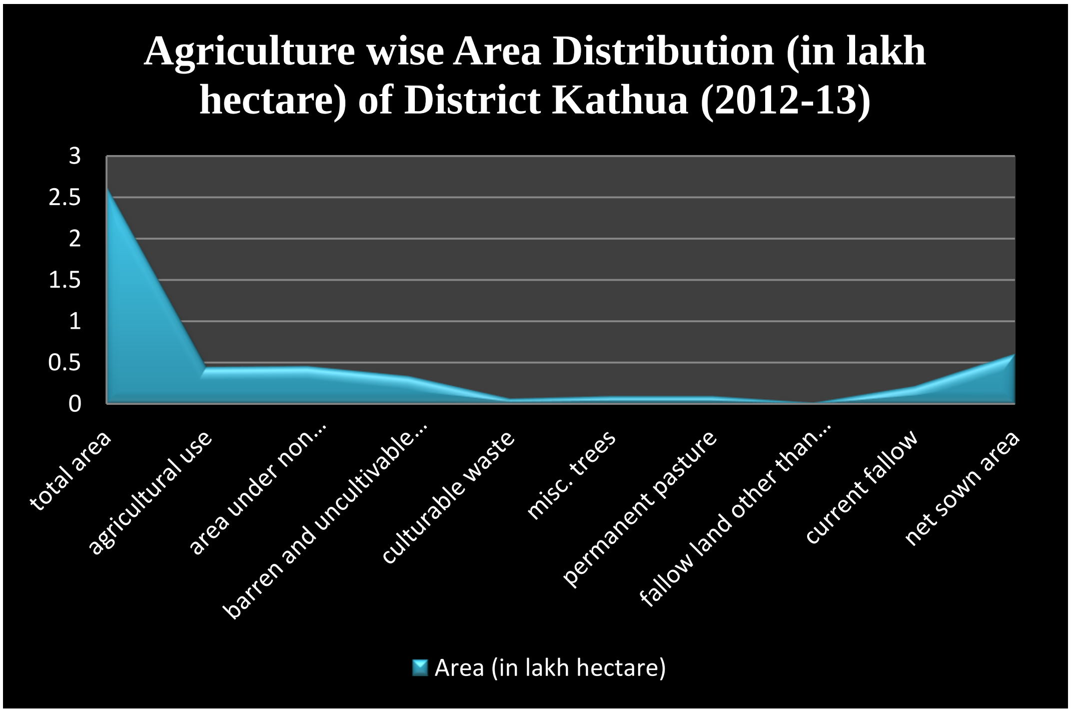

Fig 1.1 Agriculture wise area distribution (in lakh hectare) of district Kathua (2012-13)

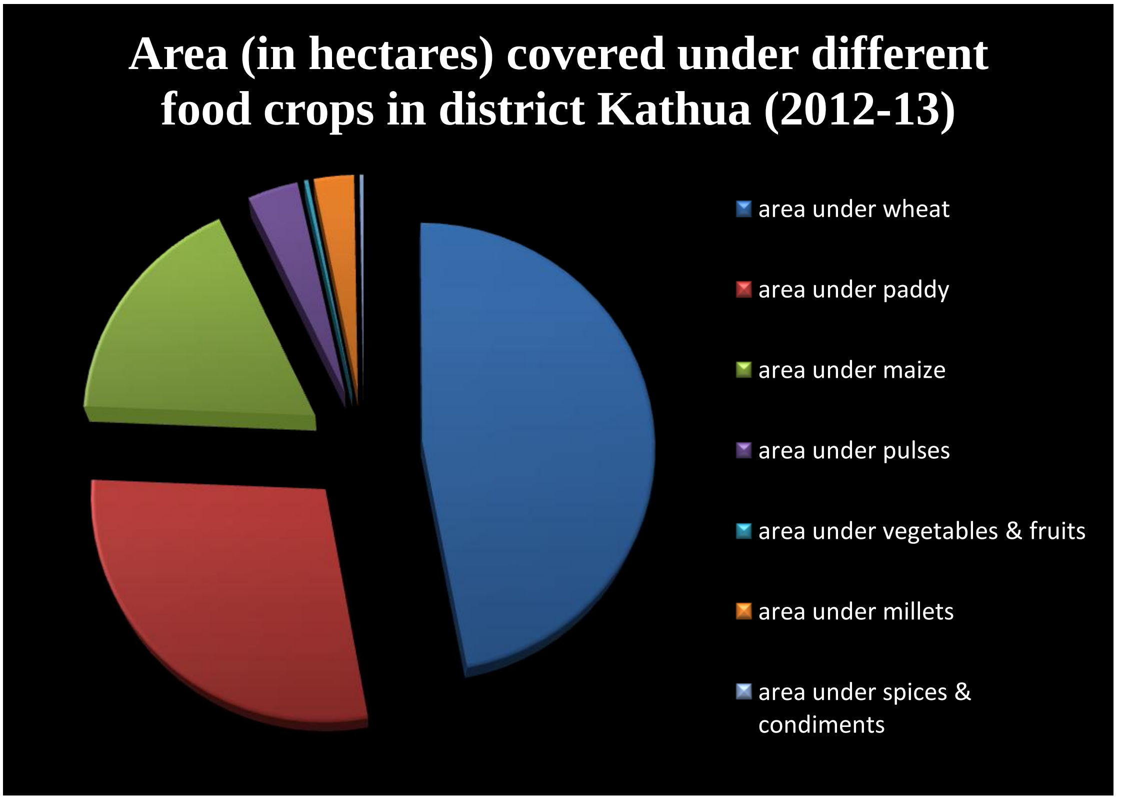

Fig 1.2 Area (in hectares) covered under different food crops in district Kathua (2012-13)

In Agriculture Zone Hiranagar, Wheat and Paddy constitute the staple food. As per agriculture zone records, number of farming families was 3365, total cultivated area was 4424 hectare, uncultivated area was 1434 hectare, irrigated & unirrigated area were 763 & 3665 hectare respectively. The area covered under paddy crop was 1615 hectare, wheat (2791 hectare), maize (615 hectare), oilseeds & pulses (515 hectare for Kharif season and 377 hectare for Rabi season), vegetables (90 hectare). The pictorial representation of the area distribution in Hiranagar zone of district Kathua is shown below as in figures 1.3 & 1.4.

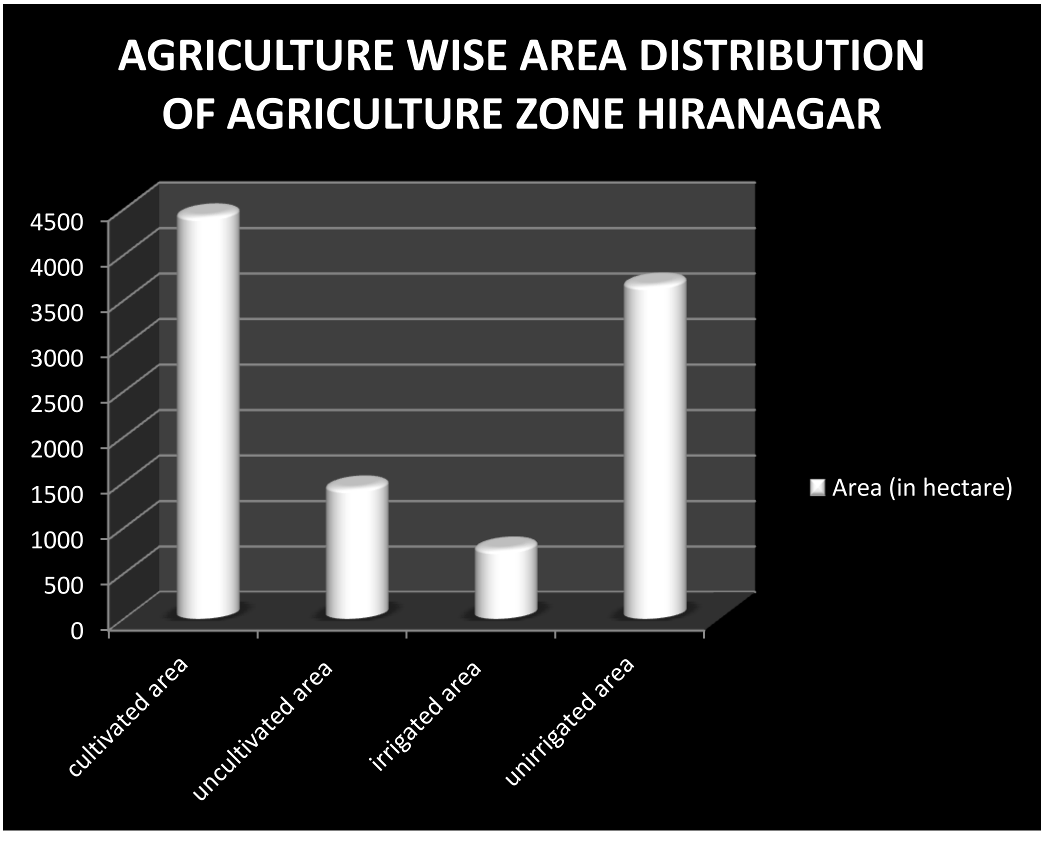

Fig 1.3 Agriculture wise area distribution (in hectares) of Hiranagar zone of district Kathua

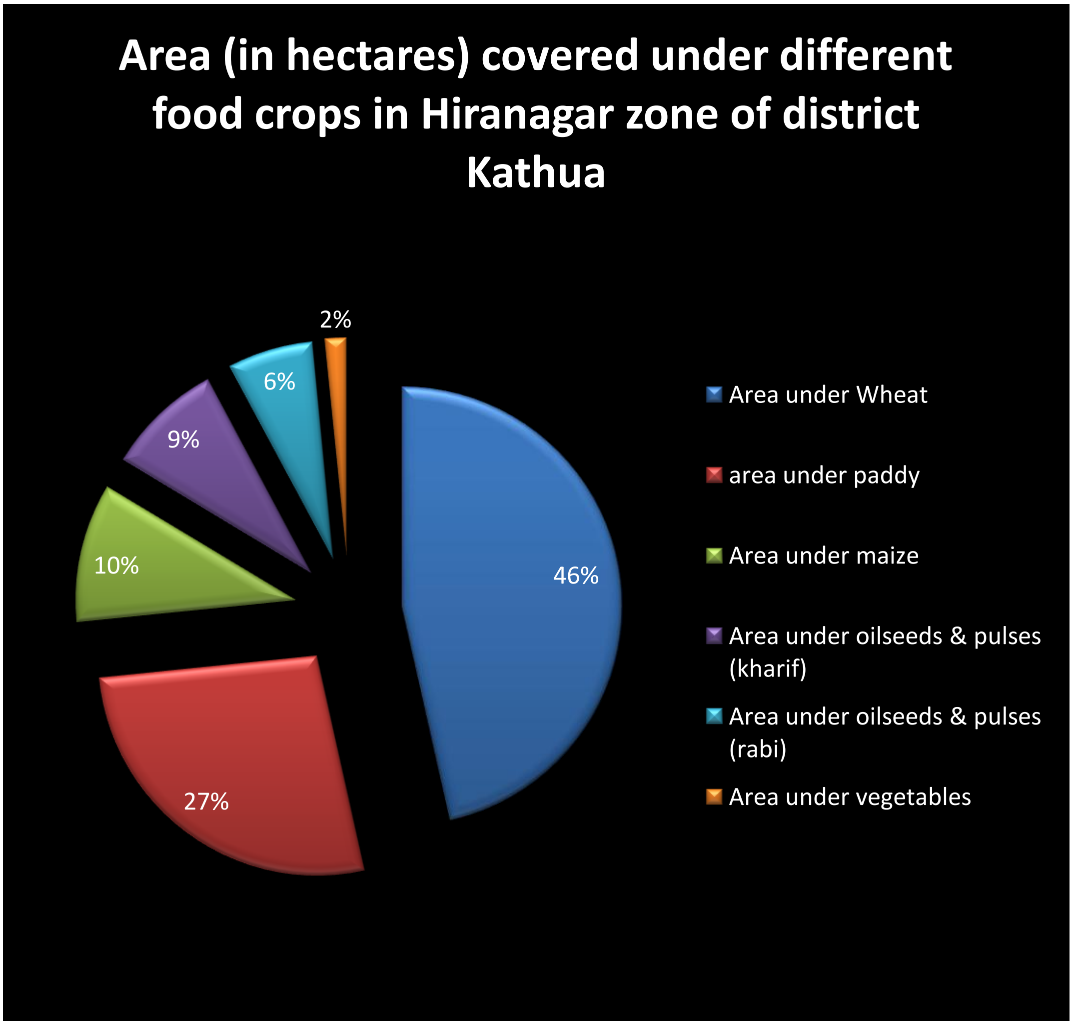

Fig 1.4 Area (in hectares) covered under different food crops in Hiranagar zone of district Kathua

Status of Credit Card in the Jammu & Kashmir State and in India

Since inception of the scheme up to March 2012, banking system had issued 124365 numbers of KCCs in the state. The corresponding number of cards issued at all India level as on October, 2011 has been Rs.1078.36 lakh. The total sanctioned credit limit involved has been Rs.960.46 crore as on March 2012 in Jammu & Kashmir as compared to Rs.527052 crore in India. The share of Commercial banks in Jammu & Kashmir stood at 62.94% of total credit followed by RRBs at 35.87% and Cooperative banks at 1.19%. The corresponding figures at all India are 56.21% (Commercial banks), 30.13 % (Co-operative banks) and 13.66% (RRBs). In Jammu region, total coverage was 37.53 per cent and in Jammu district, the coverage was 39.75 per cent. The highest coverage, to bring the farmers under KCC scheme in Jammu region, was of district Samba (85.22 per cent coverage). Overall, average coverage made in J&K state was 35.69 per cent.

Kisan Credit Card (An Instrument of Agriculture Financing)

The Kisan Credit Card (KCC) has emerged as an innovative credit delivery mechanism to meet the production credit requirements of the farmers in a timely and hassle free manner. The scheme was conceived in the session 1998-99 and now is implemented in the whole country by the entire institutional credit framework involving Commercial banks, RRBs and Cooperatives and has been found widely acceptable amongst bankers and farmers. KCC scheme aims at providing adequate and timely credit support from the banking system under a single window to the farmers for their cultivation and other needs as indicated below:

a) To meet the short term credit requirements for cultivation of crops.

b) For meeting the post harvest expenses.

c) For the repayment of marketing loan.

d) To meet the consumption requirements of farmer household.

e) Providing working capital for maintenance of farm assets and activities allied to agriculture, like dairy animals, inland fishery etc.

f) To meet the investment credit requirement for agriculture and allied activities like pump sets, sprayers, dairy animals etc.

Features of Kisan Credit Card

The main features of KCC are:

a) Farmers, who are eligible for production credit of Rs.5000 or more, are eligible for the issue of Kisan Credit Card.

b) Beneficiaries covered under the scheme, are issued with a credit card & a pass book or a credit card cum pass book incorporating the name, address, particulars of land holding, borrowing limit, validity period, a passport size photograph of holder etc., which may serve both as an identity card & facilitate recording of transactions on an ongoing basis.

c) KCC has an advantage of revolving cash credit facility involving any number of drawls & repayments within the limit.

d) Loan limit to be fixed on the basis of operational land holding, cropping pattern & scale of finance.

e) The card is valid for 3 to 5 years subject to annual review. As incentive for good performance, credit limits could be enhanced to take care of increase in costs, change in cropping pattern, etc.

f) Under KCC, each drawl is to be repaid within a maximum period of 12 months.

g) Operations may be carried through issuing branch and also PACS in the case of Cooperative banks through other designated branches at the discretion of bank.

h) Withdrawals through slips/cheques under this scheme are accompanied by card and passbook.

i) While fixing limit, entire production credit needs for full year plus ancillary activities related to crop production are considered.

j) Sub limits may be fixed at the discretion of the banks.

k) Risk coverage :

- Rs. 50,000 for death due to accident caused by outward, violent & visible means and also for permanent total disability and for loss of two limbs or two eyes.
- Rs. 25,000 for loss of one limb or one eye.

Benefits of KCC Scheme to Farmers and Banks

The benefits of KCC scheme to farmers are:

a. Disbursement procedures are simplified.

b. Farmers need not to apply for a loan for every crop.

c. Farmers face flexibility regarding cash and kind.

d. Assured availability of credit at any time enabling reduced interest burden for the farmer.

e. Helps buy seeds and fertilisers at farmer's convenience and choice.

f. Helps buy on cash-avail discount from dealers.

g. Credit facility for 3 years-no need for seasonal appraisal.

h. Maximum credit limit based on agriculture income.

i. Any number of withdrawals subject to credit limit.

j. Repayment only after harvest.

k. Rate of interest as applicable to agriculture advance.

l. Full year's credit requirement of the borrower taken care of.

m. Security, margin & documentation norms as applicable to agricultural advance.

n. Access to adequate & timely credit to farmers.

o. Flexibility to draw cash & buy inputs.

p. Assured availability of credit at any time enabling reduced interest burden for the farmer.

q. Flexibility of drawls from a branch other than the issuing branch at the discretion of the bank.

The benefits of KCC to banks are:

a. Reduction in work load for branch staff by avoidance of repeat appraisal and processing of loan papers.

b. Minimum paper work and simplification of documentation for withdrawal of funds from the bank.

c. Improvement in recycling of funds and better recovery of loans.

d. Reduction in transaction cost to the banks.

e. Better banker-customer relationship possible

Table 1.1 shows the targets & achievements of the period (2006-11) of Kisan credit cards by the banks in J&K state. Of the total period taken into consideration, achievements was not up to the targets but always less than the targets. The percentage of achievement was 19.71%, 11.34%, 15.35%, 37.54% & 14.23% for the year 2006-07, 2007-08, 2008-09, 2009-10 & 2010-11 respectively. Thus, percentage of achievement was found to be highest in 2006-07 and lowest in 2007-08.

TABLE 1.2 shows sub-division-wise status of KCC under 100% coverage in respect of district Kathua upto 31 march 2014. There are 3 subdivisions of district Kathua- Dayalachak, Billawar & Basohli. The target of KCC issued of subdivision Dayalachak was 22851 whereas number of KCC issued by banks as on 31-03-13 was found to be 9878 and the number of KCC issued by banks as on 31.10.13 w.e.f. 1.04.13 was 2290. Total number of KCCs issued by banks under 100% coverage scheme was found to be 12168 & 31416 for the subdivision Dayalachak & district Kathua.

Table 1.1: Target And Achievement Of Kisan Credit Cards By Banks In J&K*

Year	**Target (in lakh)**		**Achievement (in lakh)**		**Percentage of achievement**
	No. of cards	**Amount**	**No. of cards**	**Amount**	
2006-07	66799.00	12047.96	4599.00	2375.02	19.71
2007-08	46648.00	17843.72	3725.00	2025.13	11.34
2008-09	34524.00	10470.10	2734.00	1606.85	15.35
2009-10	35005.00	8647.27	6707.00	3246.96	37.54
2010-11	49870.00	27466.36	8659.00	3910.31	14.23

***Source: JKSLBC (through NABARD)**

Table 1.2: Sub-Division -Wise Status Of KCC Under 100% Coverage In Respect Of District Kathua Upto 31 March 2014*

Name of the Subdivision	No. of villages covered	No. of farming families reported	No. of KCCs issued since inception of the scheme upto 31-03-12	Actual target of KCC/No. of KCC applications filled	No. of KCCs issued by banks as on 31-03-13	No. of KCCs issued by banks as on 31-10-13 w.e.f. 1-04-13	Total no. of KCCs issued by banks under 100% coverage scheme
Dayala Chak	369	31412	8046	22851	9878	2290	12168
Billawar	68	23024	924	16699	9329	2607	11936
Basohli	75	18947	708	14097	6909	403	7312
Total	**512**	**73383**	**9678**	**53647**	**26116**	**5300**	**31416**

*Source: CAO, Kathua

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