

Analysis of KISAN CREDIT CARD Scheme (A Case Study of Rajasthan)

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Abstract: Kisan Credit Card (KCC) scheme performance in India has been studied by finding its share in the total amount of loan disbursed to agriculture. The flow of credit through KCCs has been investigated from three types of financial institutions, viz. cooperative banks, regional rural banks and commercial banks in terms of total loan amount, application of farmers and amount per card. Region-wise study has revealed a wide disparity in the performance of these institutions. The case study of Rajasthan has depicted a similar picture with a vast disparity across different districts of the state in terms of amount, number of cards and amount per card. The gross returns and consequently net margins have been found higher for KCC beneficiary than non-beneficiary farmers. The factors influencing the adoption of KCC scheme and constraints perceived by the farmers have been identified. Some measures have also been suggested to attract more farmers towards the scheme.

Key words: Kisan Credit Card, KCC scheme, Rajasthan.

1. INTRODUCTION

The Kisan Credit Card (KCC) is a credit delivery innovation for providing adequate and timely credit to farmers under a single window with a flexible and simplified procedure. The KCC has been an important instrument for deepening financial inclusion in recent years. As at end-March 2011, about 10.2 million KCCs were issued while the amount of agricultural credit outstanding against them was Rs. 726 billion. Commercial banks, with a share of 55 per cent in total cards issued and 69 per cent in the total amount of credit played an important role in expanding the KCC route to credit [1].

In the sustained growth of agricultural sector, credit plays a crucial role. The agriculture and allied sector contributed 14.6 per cent to the gross domestic product (GDP at constant price), 58.2 per cent to employment and 10.6 per cent to national exports in 2009-10 [2-3]. Considering the problems being faced by the farmers in having access to credit, the Government of India introduced the Kisan Credit Card (KCC) scheme in the year 1998-99 to provide timely and adequate credit support to the farmers from formal banking system in a flexible, hassle-free and cost effective manner [4]. The factors like age, gender, household size, farm size, education level, etc. positively influence the decision of adoption of KCCs [4]. This scheme has facilitated the availability of credit in time and has simplified the procedure for availing loan from banks to a large extent [5]. The timely availability of crop loan has helped the farmers realize

higher returns from farming [6]. Most of the farmers are aware about the benefits of the KCC scheme irrespective of their literacy level [7]. Although KCC has gained popularity, there are growing concerns among farmers about this program; these include: (i) it should involve less paper work, (ii) interest rate should be lower, (iii) there should be flexibility in installment payment or some rebate in times of hardship/crop failure, and (iv) should have higher credit limits than the existing ones. The simplification of procedure is also required [8].

2. DATA AND METHODOLOGY

Both secondary and primary data on KCC were used in the study. The secondary data on the number of KCC issued, amount of loan sanctioned by institutions and by regions were collected from various publications of NABARD [9], and [3]. The primary data were collected from 60 KCC beneficiary farmers in the Jaipur district of Rajasthan in the year 2012-13. To make a comparison, data were also collected from 60 non-beneficiary farmers of the district. The primary data were collected using pre-structured schedule on such aspects as farm business, perception of farmers about the KCC scheme, etc. Factors affecting adoption of KCC scheme were identified and constraints faced by the farmers.

The biggest challenge is the demand-supply gap in agricultural credit. Notwithstanding the expanded rural credit network and growth in quantum of credit, the demand-supply gap has been widening. Rough calculations show that during the period 2002/03 to 2007/08, when agricultural GDP grew at an average rate of around 3 per cent per annum, the demand-supply gap in total institutional agricultural credit was estimated to be around 14 per cent (as a proportion of actual supply of agricultural credit) Clearly, if agricultural sector had grown faster than 3 per cent, the corresponding demand-supply gap in agricultural credit would have been much larger.

3. RESULTS AND DISCUSSION:

Performance of KCC Scheme in India:

Flow of Institutional Credit to Agriculture and Share of KCC: - The Credit flow to the farmers through KCCs was studied from three types of financial institutions, viz. cooperative banks, regional rural banks (RRBs) and commercial banks. The share of KCC in the total amount of loan disbursed to agriculture and allied sector showed a steady increase during the initial few

years of its launch. It increased from 31.1 per cent in the year 2000-01 to 41.7 per cent in 2001-02, but after 2001-02, the total share and respective shares of each agency of financial institutions declined only two institutional agencies have recorded a positive growth rate for the amount sanctioned under KCC and it was highest for RRBs (22.4%), followed by commercial banks (23.5%). [1] has also reported that amount sanctioned under KCC to the total production credit increased during 1998-99 to 2000-01.

Region-wise Coverage of Operational Holdings under KCC Scheme: - The number of KCCs issued vis-à-vis the number of operational holdings in various regions of the country was studied. The Southern and Northern regions together accounted for 55 per cent of the total Number of KCCs issued in the country. These two regions also accounted for a higher number of cards issued as a proportion of operational holdings. [10] has reported that among states, Punjab ranked the highest with more than 100 per cent coverage of operational holdings, followed by Haryana, Andhra Pradesh, Orissa and Rajasthan. The Eastern and North-Eastern regions had the lowest number of KCCs issued and their proportion was lower than the number of operational holdings, which depicts a poor performance of the scheme in these regions.

Agency-wise Growth Rate of Number of KCCs Issued, Amount Sanctioned and Amount per Card: - The number of cards issued in India has recorded the growth rate of 3.3 per cent during the period 2001-02 to 2010-11. The North-East region

recorded the highest growth rate (16.0%) in number of cards issued and in amount advanced (34.4%) during this period. The amount per account advanced under KCC was Rs.36800 in India during 2010-11. Only two regions, namely Northern (Rs. 104200) and Western (Rs. 84500) had a higher amount per account than all-India average. The Northern region recorded a higher growth rate (17.5%) of amount per account advanced under KCC, while it was lowest for Western region (6.9%) The institution-wise analysis of the performance of KCC revealed that at all-India level RRBs showed the highest growth rate for the number of cards issued. In the case of cooperative banks, North-Eastern region showed the highest growth rate for the number of cards issued (9.7%) and amount sanctioned (19.7%) which was higher than all-India level as well. In the case of RRBs, the growth rate for number of cards issued and amount sanctioned were highest for the Eastern region, followed by North- Western region (18.4%), followed by Eastern region (16.4%). The commercial banks also showed the highest growth rate for the number of cards issued, amount sanctioned and amount per account for the North-Eastern region, followed by Western region for the number of cards issued, and Eastern region for the amount advanced. Thus, the performance of KCC scheme varies widely across regions of the country and across financial institutions. The Eastern and North-Eastern regions continue to be underperformers with respect to Kisan Credit Card Scheme.

Share of KCC in the total credit advances to agricultural sector: 2000-01 to 2010-11 (Amount in Rs. Crore)

Year	Credit flow to agriculture					Credit flow under KCC			
	Co-operative bank	RRB	Commercial bank	Other agencies	Total	Co-operative bank	RRB	Commercial bank	Total
2000-01	20712	4220	27807	82	52827	9412 (45.4%)	1400 (33.2%)	5615 (20.2%)	16427 (31.1%)
2001-02	23524	4854	33587	80	62045	15952 (67.8%)	2382 (49.1%)	7524 (22.40)	25858 (41.07)
2002-03	23636	6070	39774	80	69560	15841 (67%)	2955 (48.7%)	7481 (18.8%)	26277 (37.8%)
2003-04	26875	7581	52441	84	86981	9855 (36.7%)	2599 (34.3%)	9331 (17.8%)	21785 (25.1%)
2004-05	31231	12404	81481	193	125309	15597 (49.9%)	3833 (30.9%)	14756 (18.1%)	34186 (27.3%)
2005-06	39404	15223	125477	382	180486	20339 (51.6%)	8583 (56.4%)	18780 (14.9%)	47702 (26.4%)
2006-07	42480	20435	166485	0	229480	13141 (30.9%)	7373 (36.1%)	19786 (11.9%)	40300 (17.6%)
2007-08	48258	25312	181088	0	254658	19991 (41.4%)	8743 (34.5%)	19900 (10.9%)	48634 (19.1%)
2008-09	45966	26765	228951	226	301908	13172 (28.7%)	7632 (28.5%)	25865 (11.3%)	46669 (15.5%)
2009-10	63497	35217	285800	-	384514	7605.8 (11.9%)	10131.7 (28.8%)	39940.5 (13.9%)	57678 (15.0%)
2010-11	70105	43968	332706	-	446779	10719 (15.3%)	11468 (26.1%)	50438 (15.2%)	72625 (16.3%)
CAGR%	13.1	27.8	30.7	-	25.7	-1.5	22.4	23.5	13.7

Source:- RBI various issues: Samntra (2010), and NABARD various issues.

IMPACT OF KCC SCHEME ON FARM ECONOMY OF RAJASTHAN TRANSACTIONS COST

For taking loan from formal sources of finance, farmers have to bear transaction cost on legal documentation, commission agents, travel cost on visits to the bank, etc. The average transaction cost on taking loan was found to be much lower for KCC beneficiary farmers (Rs.1055) than non-beneficiaries (Rs. 2745). Since a card is valid for three years, the cost on legal documentation and commission is incurred only once at the time of issue of KCC, while the non-beneficiary farmers have to incur these costs each time they take a loan. Further, after the issue of cards, farmers have to visit banks on an average twice in a year for borrowing and repayment of the loan, but the non-beneficiary farmers have to visit the banks four times on an average, resulting in a higher travel cost. The transaction cost of borrowing was found to be more than double for non-beneficiary farmers than beneficiary farmers. The transaction cost should be brought down to attract more farmers by minimizing the documentation procedure, increasing direct access of farmers to banks without involvement of commission agents, etc.

Constraints in adoption of KCC scheme as perceived by beneficiary and non-beneficiary farmers in Rajasthan: 2011-12:

Sr. No.	Constraints	Rank
Beneficiary farmers		
1	Lengthy paper work	1
2	Insufficient credit limit	2
3	High Interest rate	3
4	Loan not available on time	4
5	Difficulty in opening bank account	5
6	Inflexibility in use of branch	6
7	Inflexibility in withdrawals	7
8	Lack of consumption loan	8
9	Location difficulty	9
10	Lack of motivation from officials	10
Non-Beneficiary farmers		
1	Difficulty in opening bank account	1
2	Easy access to non institutional loan	2
3	Fear of being a defaulter	3
4	Bad experience of peer group	4
5	Insufficient credit limit	5
6	Lack of awareness about the benefits of scheme	6
7	Lack of motivation from official	7

CONSTRAINTS REPORTED BY BENEFICIARY AND NON-BENEFICIARY FARMERS

The constraints faced by farmers in the use of KCCs have been narrated above. Most of the KCC beneficiary farmers have reported the lengthy and tedious paper work to be the major problem. The insufficient credit limit, higher interest rate, non-availability of loan on time, inflexibility in the number of withdrawals and use of bank branches were other major problems reported by the farmers. The non-beneficiary farmers reported difficulty in opening a bank account as the most pressing problem, followed by easy access to non-institutional loan, insufficient credit limit, lack of awareness about the benefits of and lack of motivation by the officials. Thus, it is necessary to reduce the legal procedures involving lengthy paper work. Application of computers and capacity enhancing of bank staff could help in this aspect. The existing credit limit under KCC needs to be increased to meet the credit needs of farmers for production process. Similarly, reduction in the existing rate of interest, incorporation of consumption loan along with crop loan, provisioning of ATMs and flexibility in the use of bank branches could attract more farmers towards the scheme. To bring large number of rural farmers under the scheme, the process of opening bank accounts should be simplified. This can be facilitated by organizing village campaigns for the issuance of KCCs. Efforts should be made to enhance awareness about the scheme and its benefits. Also, regular motivation from the bank officials would develop confidence among the farmers about the scheme.

Factors Influencing the Adoption of KCC Scheme:

The analysis has revealed that the variables like land size, educational level and farming experience have positive influence on the decision of farmers regarding the adoption of KCC scheme, while the factors like age and membership of a cooperative society have a negative relationship. To find the magnitude of change in dependent variable due to the unit change in explanatory variable, marginal effect of the associated variables was calculated. The maximum marginal effect on adoption of KCC has been depicted by education, followed by land size. It was observed that one per cent increase in educational level would increase the probability of adoption by 0.04 per cent. Similarly, with one percentage increase in land size, the probability of adopting the scheme would increase by 0.03 per cent. For the farming experience, this increment would be 0.016 per cent. However, it was noted that the age and membership of cooperative societies had a negative relationship with the adoption of the scheme.

CONCLUSIONS

The performance of the KCC scheme has been found to vary across different regions of the country and across financial institutions. The flow of credit through KCC in the state of Rajasthan has not been impressive. The growth rate in the amount per account advanced under KCC has been positive for regional rural banks (RRBs) and commercial banks, and negative for cooperative banks. The amount per account

advanced in Rajasthan is much lower which probably discourages the farmers to adopt the KCC scheme. The KCC scheme has played a significant role in farm operation and income of farmers in Rajasthan. The availability of crop loan has helped in realizing higher per hectare gross return for the KCC beneficiaries for all the crops studied. To bring more farmers under the scheme, the process of opening bank accounts should be simplified. This can be done by organizing village campaigns for issuance of KCCs. Similarly, farmers have the fear of being a defaulter. For this awareness generation and regular motivation from the bank officials about the scheme and its benefits should be done to develop confidence among the farmers. Similarly, expanding educational opportunities and organizing training about improved techniques of farming could be helpful in encouraging the farmers to adopt KCC scheme.

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