Coverage, Issues and Strategy to improve lending through Kisan Credit Card (KCC)

A case study of East and West Champaran districts of Bihar

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About the Scheme I

⋆ The Kisan Credit Card (KCC) scheme was introduced in 1998 to provide adequate and timely credit at affordable cost to the farmer.

Purpose

- To meet the short term credit requirements for cultivation of crops;
- Post-harvest expenses;
- Produce marketing loan;
- Consumption requirements of farmer household;
- Working capital for maintenance of farm assets and activities allied to agriculture;
- Investment credit requirement for agriculture and allied activities.

About the Scheme II

- Eligibility: Owner cultivators; Tenant farmers, oral lessees & share croppers; Self Help Groups (SHGs) or Joint Liability Groups (JLGs)
- Channels: Operation through branch, using cheque facility, through ATM /debit cards, through Business Correspondents and 'banking outlet/part-time banking outlet, through PoS and mobile based transfer
- Collateral free loan up to Rs. 1.6 Lakh
- Modified Interest Subvention Scheme: Up to Rs. 3 Lakh 1.5% per annum to Banks
- Prompt Repayment Incentive: additional 3% for prompt repayment

Modifications in the scheme

1998 Introduction of the scheme

2004 Introduction of PAIS for KCC holders

2004 Extension for the investment credit requirement of farmers viz. allied and non-farm activities
Validity of Kisan Credit Card increased from 3 years to 5 years

2006 Fixation of interest on short term credit to farmer was fixed at 7% up to KCC upper limit of Rs.3 lakh

2012 Review of scheme and introduction of additional limit for consumption and asset maintenance, etc.
Introduction of RuPay/Debit Card

2015 Coverage of KCC holders under Atal Pension Yojana.

2019 Extension for working capital requirement in Animal Husbandry and Fisheries

Current Statistics

- As on 30 June 2023,
  Total Number of Operative KCC = 7.36 Crores
  Total Outsanding Amount = Rs.8.86 Lakh Crores
- Of the 7.36 Crore accounts, 23.67 lakh accounts (0.03% of total) pertains to agri-allied sector.

Relevant Literature

- Master Circular - Kisan Credit Card (KCC) Scheme, Reserve Bank of India
- Various circulars of RBI and NABARD
- State Focus Paper and Potential Linked Plans, NABARD
- Study on KCC by Gyanendra Mani (2016) and Vinod Kumar (2021)

  Secondary Data Sources:
- Report on trends and progress of Banking in India, RBI
- Situational Assessment Survey of Agricultural Households, NSSO
- Economic Survey of various years
- Handbook of Statistics on Indian Economy

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Objectives

- To **analyse the progress** of the KCC Scheme since its inception with focus on bottlenecks/constraints in its implementation.
- To **assess** how KCC scheme has helped in accelerating the **institutional credit flow** and brought out **change in productivity** and **efficiency** at the field level.
- To assess the **coverage** of KCC scheme for **small/marginal farmers, tenant farmers etc.** and **assess the utilization** of scheme.
- To **suggest measures** towards modification of the scheme to ensure inclusion of excluded farmers and improve overall efficacy of the scheme.

Methodology

Type of Research	Descriptive
Type of Sampling	Convenience sampling
Research instruments	Interviews using Structured Questionnaire & Focus group discussions
Stakeholders	Farmers, Bank, District Officials related to Agriculture
Primary Source of Data	Field Visits and Interviews
Secondary Source of Data	State Focus Paper, Production Linked Credit Plans, etc.

Sample Profile I

State	Bihar
Districts	East Champaran & West Champaran

Figure 1: Map of Bihar

Sample Profile II

Some general facts about Bihar related to the study:

Operational Land Holding = 1.64 crore

PM Kisan Beneficiaries = 76 lakh (Approx.)

Number of Outsanding KCC[1] = 40 lakh (Approx.)

- Around 97% of the farmers in Bihar are small (5.86%) and marginal (91.06%).
- More than 25% of the land is under sharecroppers/tenant farmers

[1] Operational + NPA + Non-operational but yet to become NPA

Sample Profile III

Figure 2: Map of East Champaran

Sample Profile IV

Figure 3: Map of West Champaran

Sample Profile V

No. of Districts	2
No. of Blocks	10
No. of Banks visited	18
No. of farmers interviewed	50
No. FPOs visited for focus group discussions	4

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Coverage of KCC in India

Number of operative/ live KCC (as on 30 June 2023)	7.36 crores
Total operational land holdings (Agricultural Census 2015-16)	14.64 crores
Number of agricultural households (NSSO's SAHH Report 2018-19)	9.31 crores
Number of beneficiary under PM-Kisan scheme (April-July 2021)	11.09 crore

Coverage of KCC - State wise

Table 1: Top and Bottom 5 states

State/UT	Gap (Number of PMKISAN Beneficiaries - Operational KCC)	%age coverage of PM-Kisan Beneficiaries under KCC
Tamilnadu	-1484685	170.86%
Goa	-3337	158.93%
Haryana	-750310	148.83%
Odisha	-1277882	147.45%
Telangana	-1386112	146.97%
Gujarat	1499823	66.80%
Himachal Pradesh	280113	62.05%
Uttar Pradesh	7948967	57.39%
Bihar	4989322	34.06%

Coverage of KCC in Bihar

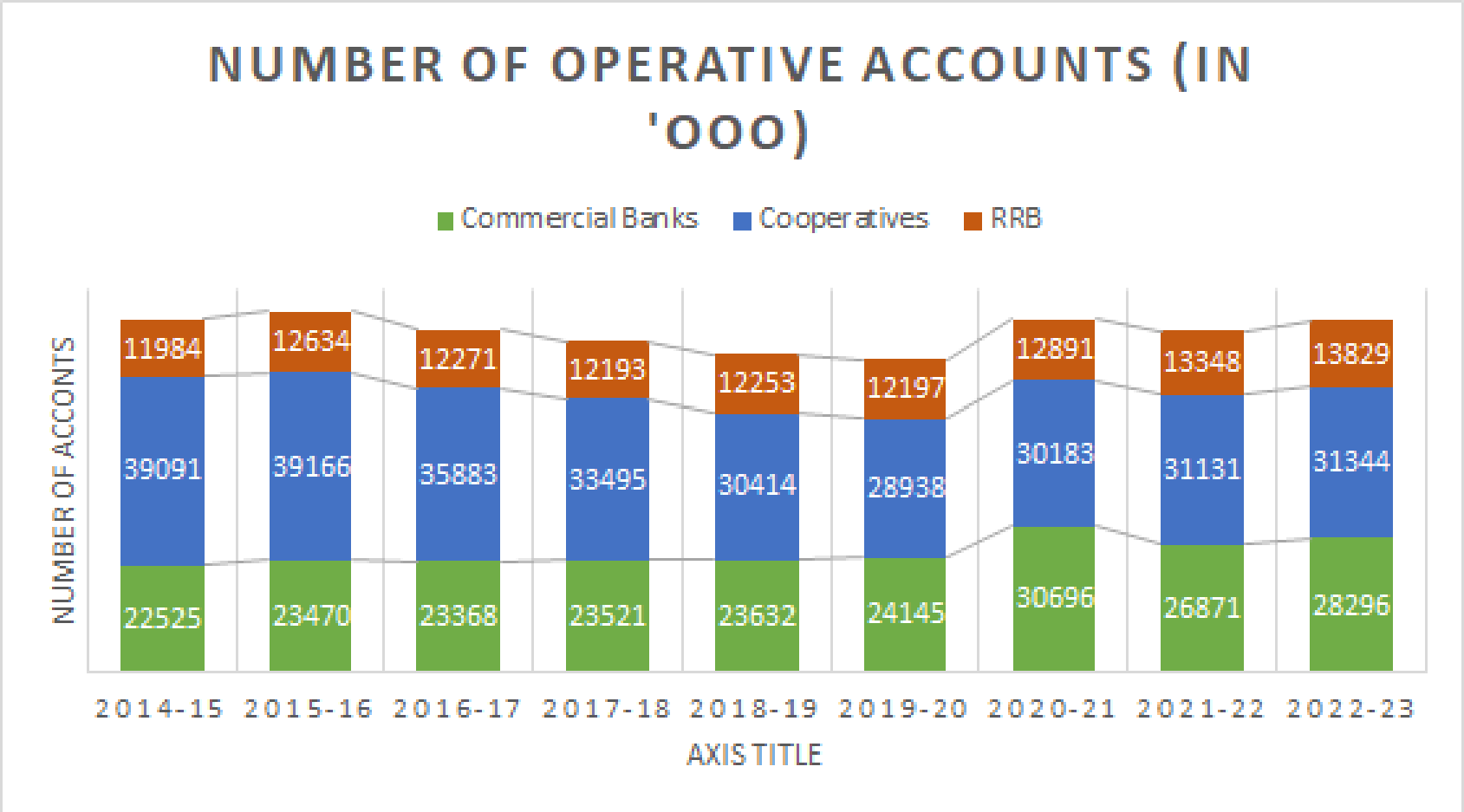
- As against 1.5 crore operational land holdings, around 75 lakh PM KISAN beneficiaries and around 2 crore farmers registered on the site of the state's Agriculture Department, the Operational KCC accounts are hovering between 14 to 20 lakhs for last 4-5 years.
- The number of operational KCC accounts in the state during 2022-23 was 14.27 lakh which was only 8.69% of the total landholding.
- Of the total no. of KCCs disbursed during 2022-23, percentage share of Commercial Banks, RRBs and Cooperative Banks were 48.62%, 49.65% and 1.73% respectively.
- The progress under KCC under Animal Husbandry and Fisheries is very low in the state. Only 48122 farmers availed loan under KCC - AH & 1162 farmers availed loan under KCC - Fisheries up to 31.03.2023.

Progress under the KCC Scheme

Year	Commercial Banks	Cooperative Banks	RRB	Total
2018-19	2.36	3.04	1.23	6.63
2019-20	2.41	2.89	1.22	6.53
2020-21	3.07	3.02	1.49	7.38
2021-22	2.69	3.11	1.33	7.14
2022-23	2.83	3.13	1.38	7.35

Table 2: Operational accounts (in crore) under KCC in last 5 years

Progress under the KCC Scheme

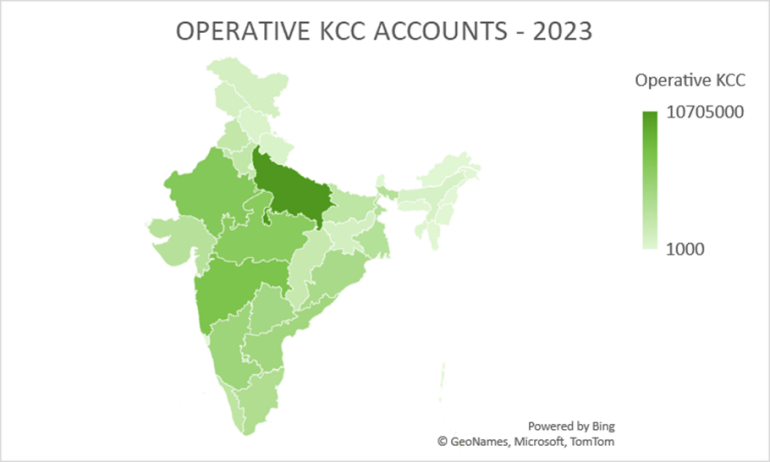


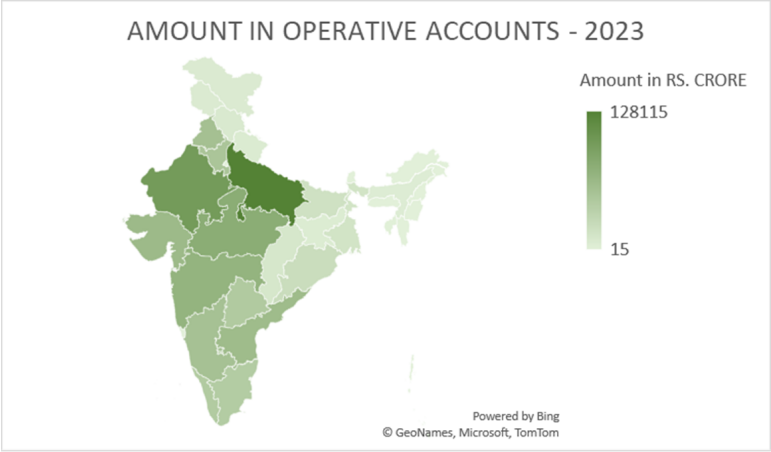
Progress under the KCC Scheme

Year	Commercial Banks	Cooperative Banks	RRB	Total
2018-19	4.55	1.27	1.27	7.10
2019-20	4.70	1.37	1.37	7.44
2020-21	4.57	1.47	1.49	7.53
2021-22	4.76	3.00	1.62	9.39
2022-23	5.19	1.89	1.78	8.85

Table 3: Outstanding amount of loans (in Rs. Crore) under KCC in last 5 years

Comparing different States





- Top 5 states in terms of Operative KCC (in '000) in the year: Uttar Pradesh(10,705), Maharashtra(7,175), Rajasthan(6,540), Madhya Pradesh(6,267) and Karnataka(4,720)
- In terms of amount outstanding under Operative KCC (Rs. Crores) in 2023, the top five states are Uttar Pradesh(1,28,115), Rajasthan(99,543), Madhya Pradesh(78,092), Maharashtra(70,329) and Gujarat(62,373).

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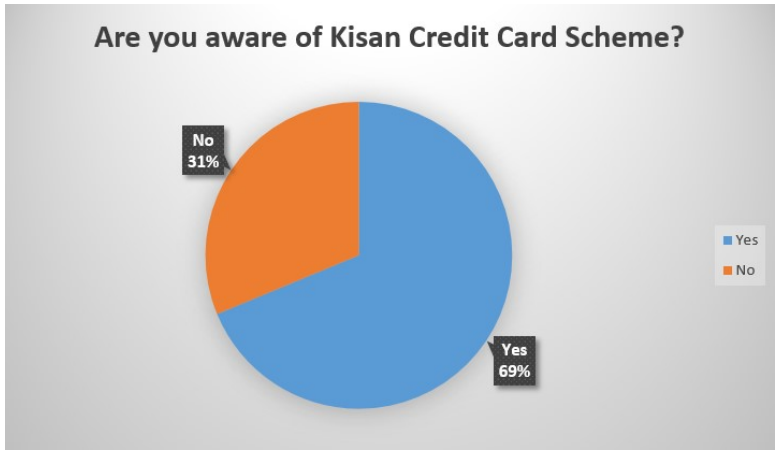
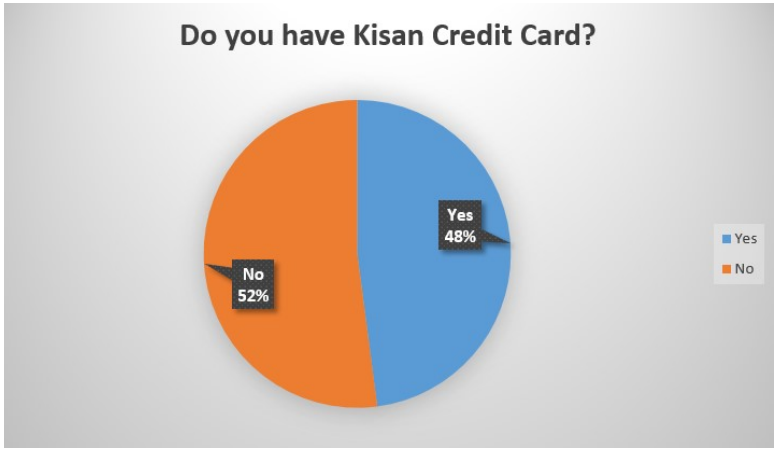
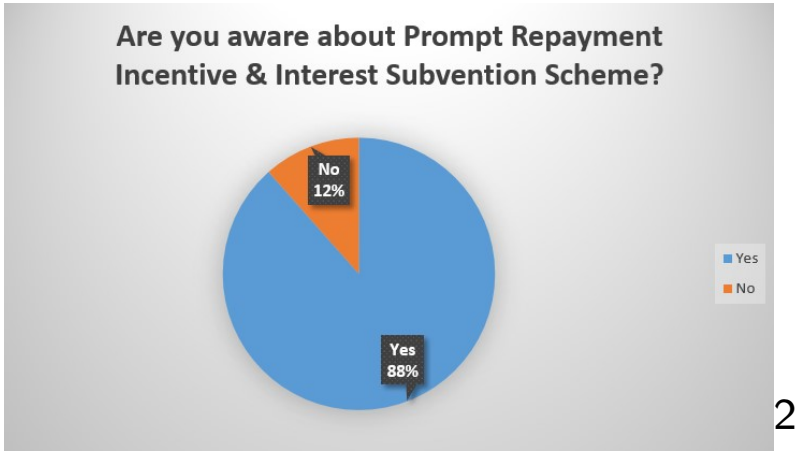
Sample Statistics

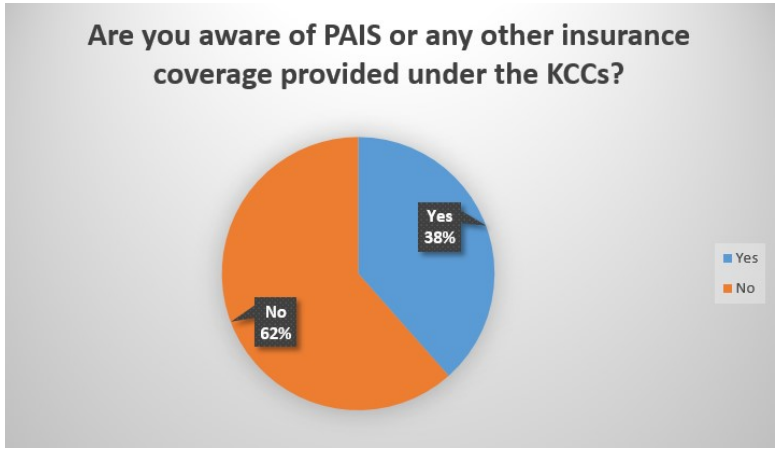
Sl.No.	Parameters	Sample	KCC Farmers	Non-KCC Farmers
1	Land Size (in Acres)	2.94	4.27	1.36
2	Banking Experience (in Years)	13.97	15.95	12.095
3	Agricultural Experience (in Years)	22.13	20	24
4	Age (in Years)	43.09	43.86	42.35

Awareness of the KCC Scheme





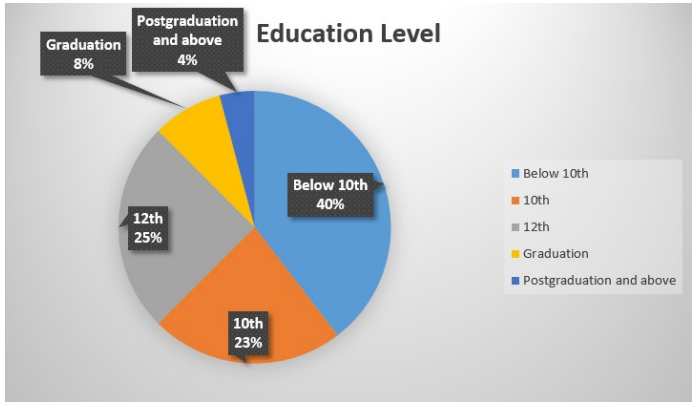




[2]

[2] Among farmers aware about KCC

Awareness of the KCC Scheme - Role of Education



- 50% of sample farmers under intermediate level were unaware of the scheme. All of the farmers above intermediate level were aware.
- 75% of sample farmers above intermediate level had KCC. Only 33% of the farmers below intermediate level had it.

On progress under the scheme

- The decision by the Bihar government to withdraw from the Prime Minister's Fasal Bima Yojana (PMFBY), citing financial constraints, has precipitated a decline in the demand for Kisan Credit Cards (KCC). This trend is evidenced by the non-renewal of cards by a segment of farmers.
- The average number of years of experience of using KCC was 11.19 ranging from 3 to 25 years.

On the process of application

- Role of intermediaries, or 'middlemen' - to facilitate the processing of applications.
  Reasons - lack of financial literacy among the farmers and structural impediments such as a complex application process and the necessity for multiple bank visits.
- Issue of Land Possession Certificate (LPC) - particularly among small farmers
- Role of Primary Agricultural Credit Society (PACS) for Kisan Credit Card (KCC) loans through cooperative banks and political considerations. This politicization of the process poses a significant barrier for small farmers, who often lack the requisite political influence to secure such recommendations.

On approval of KCC

- In light of a high proportion of loans transitioning into the category of Non-Performing Assets (NPAs), banks have adopted an approach of extreme caution in the acceptance of applications and the disbursement of loans.
- Most frequent reasons on the basis of which the applications were rejected are multiple KCC, poor CIBIL, lack of land records in the name of applicant and incomplete applications submitted.
- Many farmers do not have PAN cards required for checking CIBIL scores.
  Required CIBIL score:
  RRB - more than 650
  SCB - more than 700

On quantum of loan

- The average amount of loan sanctioned per borrower was Rs. 1.39 lakhs. The minimum amount of KCC loan was Rs. 50,000 and the maximum amount sanctioned was Rs. 2.5 lakh.
- Many farmers have reported that the sanctioned limit on their credit facilities is less than the prescribed Scale of Finance (SOF). This discrepancy has curtailed their capacity to fully leverage the benefits associated with their credit cards.

On channels of withdrawal

- Branch operations - most frequently source. (In certain instances, it was observed to be the sole delivery channel)
- The limited availability of withdrawal options, confined primarily to cash windows at bank branch offices, has been identified as a factor constraining the flexibility of Kisan Credit Card (KCC) usage.
- 70% of the banks surveyed had ATM facility available for KCC loans but its use was quite limited.
- Certain banks have encountered difficulties in issuing Smart Cards, a challenge attributed to a shortage of cards and the farmers' inability to utilize them effectively. This situation highlights the logistical and user competency issues that can impede the successful implementation of digital banking solutions.

On repayment of loans

- Low repayment in anticipation of **loan waiver schemes**. Historically, such schemes have inadvertently penalized punctual borrowers, creating a perception of disadvantage among those who consistently meet their repayment obligations on time.
- Farmers are encountering challenges in meeting their repayment obligations in a timely manner due to lack of a viable market for their produce. Investing in infrastructure such as roads, storage facilities, and processing units can help farmers reach markets more easily and reduce post-harvest losses.
- Crop loss due to adverse weather leads to lack of income and subsequent failure of achieving repayment deadline

On interest subvention

- Farmers have been receiving prompt repayment incentive in an efficient and seamless manner directly in their bank account.
- Recent trends indicate a marked improvement in the timely receipt of interest subvention amounts by banks from the government. This is a significant departure from the situation that prevailed approximately five years ago.

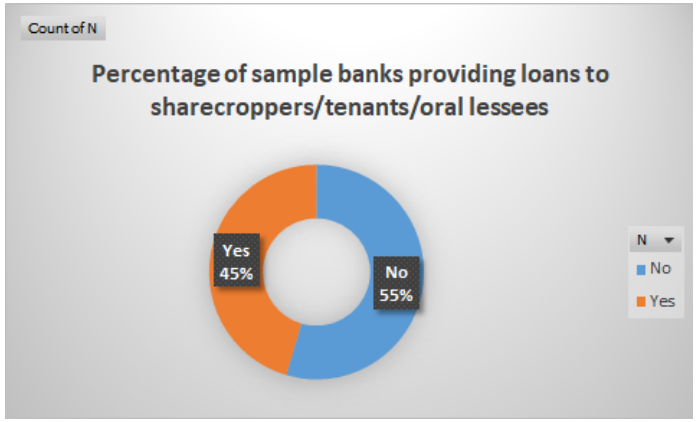
On the need for enquiry service

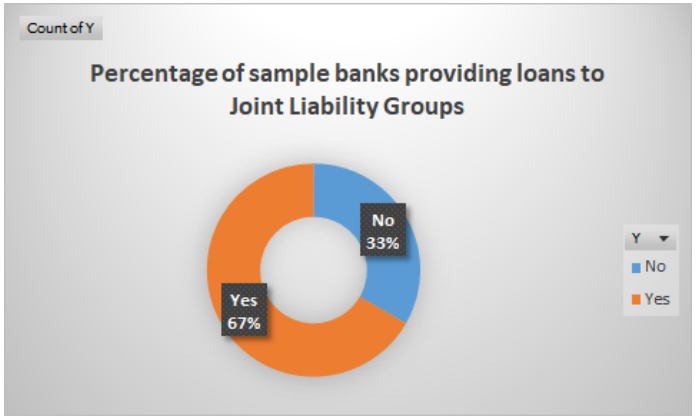
- Farmers have reported challenges in managing their accounts, primarily attributed to the absence of proper enquiry service. This deficiency in service has compounded the difficulties faced by some farmers who have been unable to obtain comprehensive information about their account operations.
- Only 25% of the banks had separate counters related to KCC.
- Banks have identified staffing constraints as a key factor impeding their ability to provide such services.

On the impact of KCC on income and yield

- Those farmers who have taken KCC loans have observed increase in gross cultivated area and yield of their land.
- The benefit from interest subvention has positively influenced income and yield for all types of farmers.

Coverage of KCC for small/marginal, tenants, etc.





- Loans to tenants were based on the affidavit provided by them. The affidavit required for such loans mentions the boundary of land under cultivation.

Coverage under KCC -Animal Husbandry & Fisheries.

- Despite the fact that the Kisan Credit Card - Animal Husbandry (KCC - AH) option is available across nearly all banking institutions, it has been observed that a majority of these banks have not received any applications under this scheme.
- Potential reasons:
  1. Lack of Awareness
  2. Complex Application Process
- Compounding this issue is the requirement for farmers to make upfront investments prior to availing credit, a stipulation that has been identified as a deterrent for many.

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Suggestions to ensure inclusion of excluded farmers

1. Improve awareness among small and marginal farmers - Role of local bodies - Role of FPOs
2. Digitisation of land records and and online approval of application
3. Use of LEP[3] of Government of Bihar, Jan Samarth Portal and PTPFC[4] of RBI to be promoted
4. Relief in stamp duties and special campaigns for getting record of rights transferred to the borrower's name
5. Review of cooperative credit structure in Bihar
6. Increasing accountability at bank level through use of online application verification - Farmers should be made aware of the reason of rejection
7. Provision of crop insurance under KCC

[3] Land Encumbrance Portal

[4] Public Tech Platform for Frictionless Credit

Suggestions for KCC - AH & F

1. Awareness of the availability of KCC for Animal Husbandry & Fisheries to be improved
2. Credit for investment in Animal Husbandry & Fisheries
3. Strengthening of fish producers cooperative society

Suggestions for improving efficacy of the scheme

1. Use of loan coupons
2. Up-gradation of agri-infrastructure - provision of cold storage and food processing facility
3. Banks should be provided with adequate resources to carry out their duties.
4. Flood control and provision of HYV seeds to improve productivity
5. Support from state government through full interest subvention as in other states to the prompt re-payees

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