

Kishan Credit Card: Crossroads Ahead*

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1.0 INTRODUCTION

In early 2009 the Bankers in Patna, in the eastern state of Bihar in India, had gathered to review the credit performance in the state during the just completed calendar year of 2008. One of the items which was a matter of concern was the implementation of the Kishan Credit Card (KCC) Scheme. In spite of efforts put by the banks, there were allegations that the targets for issue of KCCs were not achieved. The credits obtained through KCC were put to different uses for which these were not intended. Large farmers obtained credits under KCC and instead of using the money for their agro purposes they used it to give loans to small farmers at exorbitant interest rates. There were also allegations of bribe and corruption in issuing credit cards. Besides, many administrative problems from the point of view of bankers and farmers were discussed during the meeting. At the end of the meeting they were sure that the matters needed urgent intervention both at policy as well as implementation levels.

2.0 GENESIS OF KCC SCHEME

Provision of timely and adequate credit has been one of the major challenges for banks in India in dispensation of agricultural and rural credit to the farmers. Constant innovation is required in order to achieve the aim. Agricultural credit cards are not a new concept in the field of agricultural banking in India. The scheme had already been introduced in a number of public sector banks in a few states much earlier. These schemes were niche-marketed and were exclusively preserved for the privileged class of farmers and the small and marginal farmers did not have much access to them. Similarly, cash credit facilities were being extended by several public sector banks and cooperative banks to farmers with the view to improving their access to credit. Again this scheme was used only selectively. The KCC scheme was started by the Government of India (GOI) in consultation with the RBI (Reserve Bank of India) and NABARD (National Bank for

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Agricultural and Rural Development) 1998-99 to join the features of both these schemes and to overcome their shortcomings. Financial sector reforms, ushered in as a part of the liberalization of the Indian economy in the beginning of nineties, has infused a spirit of competitiveness and enterprise among the banks in their endeavour towards serving their customers in the best possible manner. NABARD has been playing a proactive and catalytic role in guiding the banks to meet the emerging challenges. Towards this end, several innovative strategies have been evolved by NABARD. The instrument of Kishan Credit Card (KCC) is one of the key products developed to improve the farmer's accessibility to bank credit, simplify credit delivery mechanism and provide more flexibility in use of credit. Model scheme of Kishan Credit Card formulated by NABARD in 1998-99 is being implemented in all the States and Union territories. Subsequently from 2001-02 Personal Accident Insurance Scheme (PAIS) has been introduced as a 'add-on benefit' and all the Kishan Credit Card holders to be insured for Rs. 50,000 at a nominal premium of Rs. 15/- per annum as agreed to by General Insurance (Public Sector) Association.

The Kishan Credit scheme's coverage in terms of states, number of Banks

and number of Kishan Credit Cards issued is given in Table 1. The progress of the scheme for the three years 2005 -2008 is given in Table 2.

3.0 THE OBJECTIVES AND SCOPE OF KCC SCHEME

As a pioneering credit delivery innovation, Kishan Credit Card Scheme aims at providing adequate and timely credit support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible, hassle free and cost effective manner.

3.1 Kishan Credit Card Scheme – Salient features

- Eligible farmer will be provided a Kishan Credit Card and a Pass Book or a Card-cum-Passbook.
- Revolving cash credit facility allowing any number of drawls and repayments within the limit.
- Entire production credit needs for full year plus ancillary activities related to crop production to be considered while fixing limit. In due course, allied activities and non farm short term credit needs may also be covered.
- Limit to be fixed on the basis of operational land holding, cropping pattern and scales of finance.
- Seasonal sub limits may be fixed at the discretion of banks.

Table: 1 State wise No of Kishan credit issued up to 31 March, 2008

	State/Uts	No*	Cooperative	No*	Regional Rural	Commercial	Total
No.			Banks(CB)		Banks(RRB)	Banks	
1	2	3	4	5	6	7	8
1	Andhra ** Pradesh	22	3594385	5	1409665	5954397	10958447
2	Assam	1	5947	2	66642	224510	297099
3	Arunachal Pradesh	1	980	1	1401	11351	13732
4	Bihar**	22	775438	5	374506	869915	2019859
5	Gujarat	18	1161928	3	198070	956321	2316319
6	Goa^	1	3729	0	0	7907	11636
7	Haryana	19	1194877	2	259284	583773	2037934
8	Himachal Pradesh	3	54896	2	23809	147532	226237
9	Jammu & Kashmir	4	48872	3	9878	6600	65350
10	Karnataka	21	1349972	6	780084	1704873	3834929
11	Kerala	14	1030315	2	327710	1051697	2409722
12	Madhya Pradesh	38	2819980	10	346143	1054064	4220187
13	Maharashtra	30	4413984	7	215134	1675513	6304631
14	Meghalaya #	1	5975	1	12218	28434	46627
15	Mizoram #	1	2104	1	5100	8456	15660
16	Manipur #	1	13475	1	1037	17334	31846
17	Nagaland #	1	1735	1	1037	13617	16389
18	Orissa	17	2674014	6	382358	701391	3757763

19	Punjab	19	848851	3	84799	961568	1895218
20	Rajasthan	28	2764330	6	317801	1008041	4090172
21	Sikkim #^	1	2548	0		3857	6405
22	Tamil Nadu	22	1697972	2	177544	2525556	4401072
23	Tripura #	1	3090	1	20158	25328	48576
24	Uttar Pradesh	51	5680065	16	2684949	4305333	12670347
25	West Bengal	20	1205415	9	203217	898083	2306715
26	A & N Islands #^	1	2801	0	0	1093	3894
27	Chandigarh ^	0	0	0	0	935	935
28	Daman & Diu @#	0	0	0	0	93	93
29	New Delhi #^	1	1986	0	0	3785	5771
30	D & N Haveli @^	0	0	0	0	28	28
31	Lakshdweep @^	0	0	0	0	463	463
32	Pondicherry ^	1	6916	0	0	29473	36389
33	Jharkhand	8	278892	2	174634	260946	714472
34	Chhattisgarh	7	783643	3	183761	170632	1138036
35	Uttrakhand Breakup not available for CBs (1998-99)	10	280219	2	23350	168864	472433
		385	32709334	102	8284289	25569768	66563391

SCB functions as CFA. , @ No Cooperative Banks in these UTs.

^ No RRB in these States/UTs.

* No of Banks implementing the scheme

** Cooperative data are under reconciliation

Source: Credit Division, Ministry of Agriculture, New Delhi.

Table 2: Progress of Kishan Credit Card scheme 2005- 2008

Banks	2005-06			2006-07			2007-08		
	Target (Nos.)	Achievement	%age	Target (Nos.)	Achievement	%age	Target (Nos.)	Achievement	%age
Comm Banks	1,43,866	1,31,618	91.49	2,50,000	2,03,935	81.57	3,00,000	2,22,478	74.16
RRBs	1,29,719	66,332	51.14	1,90,000	1,40,071	73.72	2,28,000	1,68,529	73.92
Co-Op Banks	2,93,166	12,653	41.16	1,60,000	55,374	34.61	1,60,000	75,533	47.21
Total	5,66,751	3,18,603	56.22	6,00,000	3,99,380	66.56	6,88,000	4,66,540	67.81

The percentage overall achievement of Commercial Banks against the allocated targets under the Annual credit Plan kept on decreasing; however in absolute terms, the financing under KCC kept on increasing year after year

Source: 25th meeting for State Level Banker's Committee, Bihar, March 2009. www.slbc.bih.nic.in

- Limit of valid for 3 years subject to annual review.
- Conversion /reschedulement of loans also permissible in case of damage to crops due to natural calamities.
- As incentive for good performance, credit limits could be enhanced to take cares of increase in costs, changing in cropping pattern etc.
- Security, margin and rate of interest as per RBI norms.
- Operations may be through issuing branch / PACS or through other designated branches at the discretion of bank.
- Withdrawals through slips / cheques accompanies by card and passbook.
- Personal Accident Insurance of Rs. 50,000 for death and permanent disability and Rs. 25,000/- for partial disability available to Kishan Credit Card holder at an annual premia of Rs. 15/- per annum.

3.2 Eligibility

Borrowers with good track record over the past two years would be the prime customers. New borrowers could also be included if they could get proof of operational land holding from the *Patwari*.

3.3 Target group

Short-term crop loans required by existing/new borrowers

3.4 Selection methodology

The farmer would be evaluated by the bank, on financial grounds by looking at his past record with the bank, and on personal grounds by looking at his reputation in the village.

3.5 Fixation of credit limit

The credit limit under the card may be fixed on the basis of the operational land holding, cropping pattern and the scale of finance by the District Level Technical Committee (DLTC) and SLTC. If the limit has not been fixed by the DLTC/SLTC or the limit in the opinion of the bank is low, appropriate scale of finance for the crop may be fixed by the bank.

3.6 Validity and repayment schedule

A card once issued would be valid for a period of three years. The facility may be extended, the amount enhanced or cancelled, depending on the performance of the farmer. Repayments are to be made within 12 months of taking the credit.

3.7 Margin

- For loan amount up to Rs. 10,000: NIL
- For amount over Rs. 25,000: 15% to 25%

3.8 Collateral

- Loan Amount security to be furnished
- Up to Rs. 10,000 DPN (demand promissory note) / loan agreement is needed only
- Rs. 10000 and up to Rs. 25,000 Hypothecation of crops is required.

- Above Rs. 25,000 Hypothecation of crops and mortgage of land (or) third party
- Guarantee is needed

3.9 Interest

This is subject to change.

Amount of Interest for Repayment period

	Up to one year	Exceeding one year
• Upto Rs. 25,000	11 %	11 %
• Above Rs. 25,000-Rs. 2,00,000	12 %	12 %
• Above Rs. 2,00,000-Rs. 25,00,000	13.5%	13.5%
• Rs. 25,00,000 and above		
• (Depending on Credit Risk Rating)	13.25% to 15.5%	13.25% to 15.5%

4.0 ADVANTAGES OF KCC SCHEME

- Full year's credit requirement of the borrower taken care of.
- Minimum paper work and simplification of documentation for drawal of funds from the bank.
- Access to adequate and timely credit to farmer.
- Assured availability of credit for 3 years and avoidance of uncertainty involved in accessing credit on a year to year basis.
- Annual review of limit and provision for enhancement subject to satisfactory operations.
- Flexibility in use of credit and

saving in interest burden.

- Flexibility of drawing cash from a branch other than the issuing branch at the discretion of the bank.
- Availability of the life cover/ disability insurance at very low premium in case the farmers meets with accident.

5.0 AREAS OF CONCERN

5.1 Responses to "Mega Kishan Credit Card Camp"

With a view to achieving the target of distribution of 15 lakh Kishan Credit Cards (KCC) among the farmers of Bihar, mega camps were held in the

state on December 27, 2008. The mega camps were organized across the state to give a fillip to the distribution in Bihar. Similar camps were also organized in January. All divisional commissioners had been asked to organise the "Mega Kishan Credit Card Camp" on December 27 at block levels. As per government officials 4,50,000 KCC had been distributed against the target of distribution of 15,00,000 KCC in the financial year. Banks were also asked to take necessary steps to achieve the target of distributing 15,00,000 KCC,

According to a senior political leader occupying a responsible position in government, the bankers were asked to issue KCC only after receiving the affidavit and current rent receipt for the loan amount up to Rs 50,000. Commercial banks had been asked to issue 8,61,000 KCC, the regional rural banks (RRBs) 4,78,000 and cooperative banks 1,60,000 in the current fiscal, the leader said.

Expressing displeasure over the "unsatisfactory distribution" of KCC in the districts of Patna, Buxar, Madhepura, Begusarai, Jamui, Saharsa, and Purnia among others the leader asked the bankers to improve their

performances in the distribution of KCC in these districts.

5.2 Observations from Field

5.2.1 Misuse of Kishan Credit Cards- From Banker's point of view

Public sector banks are stepping up vigilance on spending under the Kishan Credit Card scheme following instances of misuse and diversion of funds by farmers through the card. It has been observed that as the KCC is provided at the subsidized rate of interest (7%) which is usually below the 2 % of PLR of the most of the bank, credit received is used as Demand Loan, for the purchases of two vehicle etc (The rate of interest on Demand loan is 16-18 %). In some cases where KCC is used by big farmers to lend this money to landless farmers or labourers at the very high rate of interest which is usually 30-40 percent.

The banks plan to monitor funding by tying up with agriculture input merchants. The method could be, however, effective only if the KCC is converted into a smart card or a debit card. In the recent past, various farmers' forum and bankers' forum have made representations to the government at various levels to partly convert the KCC into a smart card or a debit card, said a deputy general manager with a south-based public sector bank. The

conversion could help banks monitor the spending under this scheme.

Under the current scheme a farmer has the freedom to go to any agro input provider (merchant) to meet his input requirements. However, the bank has no way to check the authenticity of the dealer and the bill produced by the farmer, If the KCC worked like a smart card, then banks would be able to track the credit history of a farmer efficiently, said a chairman of a PSU bank.

Secondly, banks could tie up with local input providers (merchants) to curtail diversion of funds and non-performing assets in priority sector lending at large, he added. Presently, banks have tie-ups with commodity boards which provides training and specific inputs for agriculture activities. In such a tie-up, the bank provides the loan and the board the necessary expertise and advice for conducting farming activity.

For instance, Vijaya Bank has a tie-up with the Vegetable and Fruit Promotion Council of Kerala. As per the tie-up, the bank provides loans to farmers, while the council trains and acts as providers of plantation material to farmers. Later, the farm

produce is sold to the Kendra, owned by the council.

5.2.2 Kishan Credit Cards: on sale in rural areas

(From Farmers point of view)

The Kishan Credit Cards that the government wants to provide to farmers so that they may get easy loans for their farming work are proving to be a good business for some bank officials, and some other government officials.

Recently NABARD officials visited Bhabua district of Bihar. Some villagers had expressed concern that there were certain discrepancies and malpractices in the making of Kishan Credit Cards (KCC) for different farmers. The banks are acting like open markets of KCC where KCC is on sale on a payment of five to 15 per cent of the credit limit of credit cards. This sale is open for all farmers - the ones having actual documents and papers as well as the ones presenting illegally forged documents. In most of the cases, this payment of bribe is made compulsory, as without payment of this amount no KCC can be obtained. Many even claimed that it was much easier to get KCC for those who didn't have legal documents, whereas for those who were submitting the actual documents it was difficult to get one.

NABARD Officers decided to do some research on this issue and go deeper into the matter. Hence, they visited Kaimoor district headquarters on March 11, 2008. They found the entire district headquarters was closed to express condolences on very sad demise of an employee of the office. They chose a bank from where they should start their research. They went to one of the branches of Madhya Bihar Gramin Bank and met a Bank official there. They told, "You should need a land possession certificate (LPC) from the circle officer who sits in your block office. After submitting this LPC to the bank along with four passport size photographs, you would get the KCC with a limit depending upon the measurement of land possessed by you."

Again NABARD officials visited district headquarters on March 14, 2008. They visited the office of the information officer which they were told was open on that day, The doors of the office were, of course, open but there was no guard, no peon, no clerk and nobody else to give me any information. They tried their best to get some information from offices around his office but nobody wanted to talk to them even for a while. Anyhow, they came to know that one office of information division worked from Lichhavi Bhawan, which was at a walking distance from there. They

went to that office and found the same situation there also. Nobody was to be found even there! They waited there for half an hour and again returned back to the office. For approximately half an hour, they tried to get some information from the people around as to where have all the people working in the office gone. They could get no response.

NABARD officials discussed few things with them and they were told that they could get any information regarding any such discrepancy or malpractice by writing a letter to the branch manager of the concerned bank. They decided to visit the concerned bank next day. On March 15, 2008, they went to Madhya Bihar Gramin Bank of Deohalia where they met Ram Sanehi Yadav, field officer and assistant manager. They told the NABARD officials that maximum time required in getting a KCC was ten to 15 days after the submission of application. Later on, the branch manager along with the cashier joined the discussion. When they were asked whether any receipt on submission of application was given to the farmer, they told that it was not required, as the number of application in that area was so small that they could remember all applicants by their names and faces. NABARD officers was surprised at this revelation.

Then, they went to some villages and met some people there. There were many people who had been asked to pay Rs 5000 each to the field officer, and then only, they would receive their KCCs. The ones who paid it were given KCC immediately. And the ones who didn't (couldn't) pay have been waiting for their KCCs for the last more than one and a half years. Since they did not have any proof of submission of application, they could not make any complaint against the bank officials. Most of the villagers did not even know how much time it took in the making of a KCC, and what were the procedures of making it. So if they urgently needed a KCC, they preferred paying Rs 5000 or more to the field officer and get the KCC.

There is another bank in this locality, public sector bank. NABARD officers were told that this bank had issued KCC based on illegally forged documents. Many people, who were possessing less than one acre of land, had got a KCC with a credit limit of Rs 50,000. As per the rules, a person possessing three acres of land is eligible for a KCC with a credit limit of Rs 25,000.

Actually KCC had become a good business in the rural areas of Bihar. Earlier, people used to borrow money from mahajans on a higher rate of interest. For saving their farmers from this situation, the

government pays a huge subsidy to the banks on loans given on these credit cards. But this facility has converted many of the farmers into new mahajans. There are people who have smaller pieces of lands and they are not able to get a KCC.

Even there are many who have good amount of land and still do not have a KCC because they are not in a position to pay the bribe. For these people, getting a loan is still a problem. So they contact those who have got a KCC made by illegal means and these people lend them money on a higher interest.

5.2.3 Borrowers to come under loan waiver

Farmers, who took agriculture loans through the Kishan Credit Card, were covered under the Rs 60,000-crore loan waiver scheme announced in the Budget. The loan-waiver scheme was applicable to production credit and short-term inventory credit taken on the Kishan Credit Card.

Over 7 crore Kishan Credit Cards have been issued to farmers till date from its inception in 1998. In 2006-07, 85.11 lakh cards were issued and Rs 46.72 lakh credit extended to farmers through these. The government is giving 2% subsidy on farm loan and this, in 2006-07, amounted to Rs 875 crore,

Thus, loan waiver scheme has dried

the liquidity with the banks and have imbibed the poor credit discipline among the farmers. There are increasing trend of willful defaulters. Those farmers who showed good credit discipline for past years feel cheated and look at themselves as losers.

6.0 OTHER DEVELOPMENTS

Canara Bank has launched an e-kishan credit card, an ATM-enabled card for farmers on a pilot basis, at its Tavarekere branch in Bangalore Rural district. Farmers can use the card at any networked ATM of the bank. Canara Bank has issued 11.97 lakh kishan credit cards with a credit limit aggregating Rs. 3,000 crore. The bank aims at making more ATMs available to kishan credit card holders.

7.0 THE ROAD AHEAD

Theoretically the scheme seems well thought of and full of good intentions. Not only has availability of credit been made easier but has also been made simple to get and operate. Farmers have been given sufficient freedom to decide how to use their credit, while at the same time a set repayment schedule has been provided. However for this scheme to be successful, education of both the farmers and also the bank officials about the scheme is required. Moreover, there is doubt about whether this scheme is a window dressing of bad loans made earlier, though this cannot be proved empirically as the scheme is young and data are not easily available.