

CHAPTER 1

INTRODUCTION OF THE STUDY

1.1 Background of Study

Agriculture is the mainstay of Indian economy. Mahatma Gandhi, 1901 rightly said that “India lives in villages”. Indian agriculture has a long history. The area of Northern India is irrigated by the Indus and Ganga-Yamuna rivers. The Eastern part has the Brahmaputra river for irrigation and Southern India has its own river systems. Despite of all these, Indian agriculture is dependent upon the rainfall. With the Monsoon problems, the Indian agriculture is also facing many problems. A large proportion of Indian population is depends upon agricultural and allied sector. So, there is need to enhance the growth of agriculture sector. The share of agriculture in real GDP in India has declined below one fifth, but still now it is very important sector of Indian Economy because it employs around 52% of the work force. In 1950-51 the agriculture sector contributed about 51.81% in India’s GDP. It was declined 31.4% in 1990-91 and 18.20% in 2013-14. The share of agriculture sector in GDP in 2014-15 is about 17.9% while the share of other sectors is increasing in which the service sector share is 57.9% and industrial sector share is 24.2%. Despite of all these importance of agriculture sector in country like India is not likely to decline due to the concern for food security, employment, rural poverty and availability of wage goods,(Vyas, 2003).The food grain production was at 257 million tonnes during 2014-15 which was about 52%(GOI, 2015b). Agriculture development is influenced by many factors like market, credit, infrastructure and irrigation. However, since the early 1990s, liberalisation and globalisation takes place which has impact on Indian

agriculture. Due to which agricultural commodities were liberalised and terms of trade becomes favourable to agriculture.

At present day the scenario of agriculture sector has been changed into market oriented production from the subsistence level of production .There is high value crops and new market for agriculture which brings the commercialisation. The continuous growth of agriculture sector will give the food security.

According to National agriculture policy, “Agriculture is a way of life, a tradition, which for centuries” thus runs the opening sentence of agriculture policy, “has shaped the thought, the outlook, the culture and the economic life of people”. (Dr. Joy Nerella). With the changing scenario in agriculture sector there is necessity to provide the credit at low cost and adequate amount for attaining the sustainable agriculture development.

1.2 Agricultural credit in India

Credit is an intensive factor which accelerate the farm and non-farm sector development including other segment of economy. Credit is very necessary for farmers to generate output and income. Credit is the need to change the traditional agriculture to modern agriculture. The credit is given by both formal and informal institutions. In the past time the informal institutions were the leader for providing the credit. These informal institutions charged the higher rate of interest for the credit and exploit the people. The formal institutions provides an adequate amount of credit with low rate of interest for fulfilling agricultural requirements. The importance of agriculture credit cannot be neglected in Indian economy. It enables farmers to purchase the inputs and other factors of production. The traditional argument for the

provision of agriculture credit is that additional capital can be temporary used to enhance the level of productive capital (Eswaram and Kotwal, 1990). In agriculture sector all type of farmers (small, large and marginal) suffers from the paucity of capital. After the green revaluation, many changes came in to the agriculture sector. New technology and techniques came in to this sector. To purchase these modern techniques there was the requirement of credit to invest in to agriculture sector.

The data shows trend in the flow of agricultural credit over the given period of time.

Table no. 1 Flow of Agricultural Credit in India		
Year	Target	Achievement
2006-2007	175,000	229,400
2007-2008	225,000	254,658
2008-2009	280,000	301,908
2009-2010	325,000	384,514
2010-2011	375,000	446,779
2011-2012	475,000	476,550
2012-2013	575,000	607,375

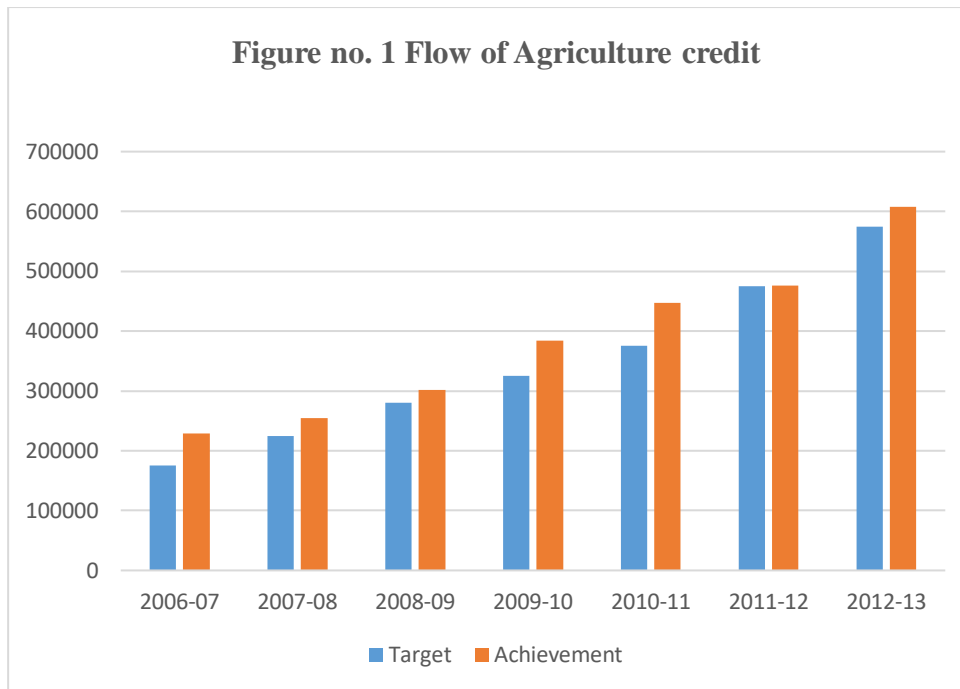


Table no.1 shows that during the year 2006-07 the targeted agriculture credit flow was Rs. 175,000 crore. Whereas the achievement was 229400. The achieved percentage was 131%. The targeted agriculture credit flow in 2007-08 was Rs. 225,000 whereas the achieved amount was Rs.254, 658. It showed 113% achievement of agriculture credit. It reduced from 2006-07 to 2007-08. In 2011-12, the achieved credit to agriculture was Rs. 476,550 crore as comparison of targeted amount of Rs. 475,000 crore. It represented 100.32% of targeted amount. From this we can understand that the achievement of agriculture credit is more than the target.

1.3 History of Agricultural Credit in India

Phase 1st (1870-1930)

During this phase in 1870 the British Raj noticed the main problem of Indian agriculture that was lack of credit. In 1904 the Cooperative societies were opened as the premier institutions for providing the agricultural loan. After that a new act passed

for credit societies and in 1915 Maclagan committee established the Cooperative banks and due to which there was the rise of three tier Cooperative credit structure. After that in 1926-1927 Royal Commission further looked at the agriculture credit.

Phase 2nd (1934-1950)

In 1934 the RBI Act was passed and this gave the attention towards the agriculture credit. In 1935 Sir Malcolm Darling submitted a report on Cooperative credit and RBI setup the two separate arms for credit structure that are one for short term and another for long term. In 1945-1950 a number of committee gave their report of provision on rural credit.

Phase 3rd (1951-1980)

In 1951 the credit given through Cooperative was only 3.3 % and commercial banks share was only 0.9%. The money lenders charged the high rate of interest from the farmers. In 1951 the foundation of Report of All India Rural Credit Survey laid by the government for the upliftment of credit structure. After that in 1963, Agriculture Refinance Corporation was setup for refinance. In 1969, the nationalization of commercial banks played a vital role in agriculture credit. It introduced the concept of priority sector for helping the neglected sectors like agriculture. Despite of all these, there was not so much improvement in credit to agriculture sector. After this a solution was made in which a separate banking structure was involved which remove the rural problems and that was the introduction of Cooperatives and Commercial banks. After the recommendations of Narasimhan Working Group (1975) RRBs were set up. Thus at the end of 1977, there were three separate banking institutions, which are called by the name or described as “Multi Agency Approach”.

Phase 4th (after 1980)

After the recommendations of committee related to agriculture credit, in 1982 NABARD (National Bank for Agriculture and Rural Development) was set up for the solution of rural problems. After the reforms in 1991, R.V. Gupta Committee gave their report for setting up of Kisan credit card scheme in 1998. KCC was introduced with the interest rate not beyond 9 percent for crop loans up to Rs. 50, 000. It is the very interesting point that the credit problems in rural sector directly or indirectly were the reason behind the setting up of all credit institutions like RBI, SBI and NABARD.

1.4 Introduction to Kisan Credit Card Scheme

Agriculture credit is the basic need for the Indian farmer, so after the limitations of multi credit approach, a strong idea came into the mind of policy makers that was the introduction of Kisan credit card scheme. The model of Kisan credit card scheme was formulated by NABARD. In 1998-99 the Hon'able Union Finance Minister, introduced the Kisan credit card scheme during his budget speech. According to this scheme loan is given to the farmers on the basis of their operational land holdings. Kisan credit card emerged as the most innovative scheme in the field of agriculture credit. The main motive of the scheme is to provide the adequate and sufficient amount of capital to the farmers. Kisan credit card provides the timely and hurdle free credit to the farmers. The farmers may use this credit for purchasing the fertilisers, equipment's, seeds, pesticides and other necessary inputs for agriculture.

Kisan credit card scheme was set up with main three agencies that were Cooperative banks, RRBs and Commercial banks. At the starting year only 0.78 million KCC card

were issued by the banks but it progressed in subsequent years. The scope of this unique facility also includes term loans for agriculture and other allied activities and is a determining factor for consumption loan.

1.4.1 Rationale behind the Kisan Credit Card Scheme:

There are many problems faced by the Indian farmers in the procedure of obtaining the adequate amount of credit from the banks. These hurdles are, long processing and lengthy documentation, typical practices followed by banks and other financial institutions, unawareness among farmers regarding banking benefits and delay in disbursing of credit. Most of the Indian farmers depends upon the informal institutions for purchasing the inputs and other consumption requirements. These non-institution credit negatively affects the welfare of farmers because of costly and counter-productive credit. The Kisan Credit Card scheme tries to remove all these complications so that it can provide the cost effective and timely credit to farmers from the reliable banking institutions.

1.4.2 Working of Kisan credit card

The process and procedure of KCC of credit disbursing is very easy and straightforward. The KCC is issued on the basis of operational land holdings and the farmer should also have the good history regarding the repayment of credit. After receiving the credit through KCC the farmers gets the other facilities like passbook with the farmer's name, validity period of credit, address of farmer, credit limit, particulars of land holdings etc. for the unique identity of customer. Now these Kisan credit card can be converted into credit cum debit card. With the help of Kisan credit-cum-

passbook farmers can withdraw the amount from their account according to their requirements.

1.4.3 Features of Kisan credit card scheme

The following are the main features of Kisan credit card:

- Credit is given to the farmers in order to meet the financial needs of agriculture and allied sector.
- It delivers the protection to the crops from the pest effects and other natural calamities.
- It also provides credit for crop production and other consumption requirements.
- The KCC disbursement is done through various delivery channels like ATM and mobile phones.
- Kisan Credit Card holder are also covered with KCC insurance policy.
- In some cases collateral security is to be provided. If the loan amount is above Rs. 100000/-, then the cardholder has to pledge his land as mortgage and hypothecate the crops raised on it.
- The eligible farmers for the Kisan Credit Card, have facility with a passbook or a card-cum-pass book.
- Sub-limits may be fixed by the banks.
- The credit limits are fixed on the basis of the farmers land holding.
- Credit card can be valid up to 5 years ,based upon annual review
- According to the change in cropping pattern and increase in costs of production the credit limits will be increased in future as per the requirements.
- Repayment of loan amount can be made within 12 months.

- Operations performed regarding the KCC may be through PACS in case of Cooperative banks or issuing branch in case of other banks, at the sole discretion of bank.
- The credit given through KCC may be conversable or rescheduled in case of damage to the crops due to natural calamities.
- RBI sets the security, margin and rate of interest according to its norms.
- Repayment options are flexible.
- Disbursement procedure of KCC scheme is hassle-free.
- For all the agricultural needs only single credit facility is available.
- It decrease the burden of credit interest from the shoulder of farmers.
- It helps in availing cash discount from merchants or dealers.
- The determination of credit limits also depends upon agricultural income.
- No restriction is made on cash withdrawals up to credit limit set by banks.
- In KCC loan interest rates set are lower
- Repayment of loan can be made one time over the harvest season.
- Credit is given for annual agricultural expenses.
- Maximum flexibility and minimum documentation is there in KCC scheme.
- Credit amount can be withdrawn from any branch of banks.

1.4.4 Rupay Kisan Card

Rupay Kisan Card was introduced on 24th November 2012 in order to help farmers. In this scheme, to purchase the required and necessary inputs farmers can directly transfer their credit amount into their account without any delay. The benefits of Rupay Kisan Credit Card are as follows:

- It can fulfil all quick and current requirements of farmers.

- There is no entry fee for farmers.
- Rupay Kisan Card is very secured card due to security PIN code.
- For the credit card annual charges are very low.
- There is no need to go to PACS personally.
- Services in Rupay Kisan card are very quick and uninterrupted.
- Interest rate is low and repayment time is high.

Rupay Credit card can be used only by Kisan credit card holders and it is valid only in India

1.4.5 Rate of Interest and Collateral Requirement on Crop Loans

In terms of Govt. of India, 7% p.a. rate of interest is set for crop loans up to Rs.3 lakh. It also provides interest subvention of 3% p.a.to encourage farmers for repayment, thus making presence crop credit to them at 4% p.a. .Crop loans which are the beyond the limit of Rs. 3 lakh are being disbursed by the banks at the rate of interest charged by RBI norms and at the other terms and conditions approved by their Board of Directors. Up to the loan of Rs. 1 Lakh no separate security is require whereas beyond the loan of Rs.1 Lakh security is decided by RBI.

1.4.6 Use of the Kisan Credit Cards by the Farmers

Under this scheme, farmers can withdraw the loan amount in form of cash withdrawals using slips and the Kisan credit card-cum-passbook. Kisan Credit Card holders who have a credit limit of Rs. 25,000 can also avail cheque books.

Benefits to Banks:

Kisan credit card scheme is very favourable to the banks because it is time saving and cost-efficient scheme. There is no requirement to explain the documentation process and unbroken appraisals under the KCC scheme. It requires very little paper work. It is very hassle –free process for card holder as well as bank. There is no transaction cost and risk in recovery of loan is very less.

1.4.7 Top Banks Providing Kisan Credit Card in India:

- NABARD- NABARD provides credit or loan at easy terms and it is easy accessible to farmers to purchase the agricultural requirements and other consumption needs.
- SBI- SBI offers the short term credit to farmers for fulfil the credit requirement of agriculture and allied sector
- Bank of India- This bank gives the financial support to farmer to meet their cultivation expenses and other non-farm activities.
- IDBI- IDBI provides KCC to the farmers in order to provide crop loan, working capital and credit for investment for fulfilling agriculture needs.
- NPCI-National Payment Corporation of India will provide the Rupay Kisan credit card in near future. It acts as a part of its domestic card scheme.

1.4.8 Insurance under Kisan Credit Card Scheme:

PAIS is Personal Insurance Accident scheme who covers the farmers who are the customer of Kisan credit card scheme. At the event of death the farmer gets a personal accident cover of Rs. 50000 and 25000 Rs. in case of personal disability. For getting

the insurance, the customer should not have the age above 70 years at the time of getting the Kisan credit card.

1.5 Statement of the Research Problem

This study looked out the major agriculture reform in India comes as Kisan credit cards scheme, which makes the function of agricultural credit market very simplified. The aim of the policy is to remove all the agricultural related constraints on the poor farmers. But in the real situation only the privileged farmers takes the benefits of KCC scheme. The reason behind this is that the KCC loan is given on the basis of operational land holdings and prior goodwill to repay the loan. The farmers cannot get the repeat loan before the repayment of the loan. The trend of KCC scheme is not smooth because of many constraints like the repayment of the loan. A lot of loan amount is yet in debt. The marginal and poor farmers does not repay the loan amount on time because their income is based on agriculture and agriculture is based on monsoon .Due to these reasons the banks does not gives the Kisan credit before the repayment of the loan . So there are many problems in the progress of Kisan credit card. At the state level, all states are not equally based on agriculture sector, due to this the progress of agriculture credit also varies in these states. According to the AreendamChanda (2012) agriculture production (total yield kgs/hect) mainly concern with the labour productivity not on the land productivity. By concerning the above problems this study is related to the progress of KCC scheme so that this study can show the growth of KCC scheme and its impact on agricultural productivity.

1.6 Significance of the Study

The progress of this Kisan credit card scheme is useful in forecasting by providing the growth model which supports at the time of policy implications. This study will also tell the impact of credit on productivity that up to how much extent credit cards improves the productivity. This study also helps the policy makers by giving the new suggestions and recommendations. Further this study will serve as a useful reference for future researchers in this field.

1.7 Scope of the Study

The study re-examines the performance of Kisan credit cards in India through state - wise analysis. Data has taken from 2000-01 to 2012-13, which covers the 13 years data. The data for this study will be sourced from Trends and Progress of Banking in India (RBI), India stat. and NABARD database.

1.8 Objectives of the Study

The overall objectives is to assess the performance of KCC scheme in India. The specific objectives are as follows:

- To study the trend and performance of Kisan Credit Card Issued by three different agencies in India.
- To study the State wise progress of Kisan Credit Card in India.
- To find out the impact of Kisan Credit Card scheme on Agricultural Productivity in India.

1.9 Organisation of the Study

This study is divided into six chapters. By following the first introduction chapter, the second chapter is related to review of literatures. This chapter is related to the literatures related to the progress and performance of Kisan credit card scheme. In the third chapter Research methodology and data collection is discussed. In this chapter the research design and models included in the study are discussed. Chapter four consists of the trend and performance of KCC issued agency-wise and also contains the state-wise progress of KCC. Chapter fifth shows the impact of KCC scheme on agricultural productivity. Lastly chapter sixth is devoted for major findings, recommendations, limitations and conclusion.