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# **ROLE OF BANKING SECTOR IN RURAL ECONOMIC DEVELOPMENT**

**23<sup>rd</sup> September 2011**

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# Kisan Credit Card in Agriculture: An Overview

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## 1.0 Introduction

Kisan Credit Card (KCC) Scheme aims at providing adequate and timely support from the banking system to the farmers for their short-term credit needs for cultivation of crops. This mainly helps the farmer to purchase inputs required for the cropping season. The credit card scheme proposed to introduce flexibility to the system and improve cost efficiency.

The Scheme of Kisan Credit Card was launched jointly by the Government of India, RBI (Reserve Bank of India), and NABARD (National Bank for Agricultural and Rural Development) in 1998-99 to help the farmers to access timely and adequate credit. The KCC allows farmers to have cash credit facilities without going through the credit screening processes repeatedly. The repayment of credit can be rescheduled if there is a bad crop season, and extensions are offered for up to 4 years. The card is valid for 3 years and subject to annual renewals. The Banks in India, that lend loan for agricultural purposes, usually offer the KCC. The withdrawals are made using slips, cards and a passbook.

## 2.0 Objectives of the Scheme

The following are the main objectives of KCC Scheme.

- 1) To provide insurance coverage and financial support to the farmers in the event of failure of crops as a result of natural calamities, pests and diseases.
- 2) To encourage farmers to adopt progressive farming practices, high value inputs and higher technology in agriculture.
- 3) To help the stabilization of farm incomes, particularly during disaster years.
- 4) To support and stimulate primarily production of food crops and oil seeds.

## 3.0 Benefits of KCC Scheme

- The following are the benefits of KCC Scheme
- KCC simplifies disbursement procedures
- It removes rigidity regarding the supply of cash and credit.
- There is no need to apply for a loan for every crop under KCC
- There is assured availability of credit at any time, enabling reduced interest burden for the farmers.

- KCC helps to buy seeds, fertilizers at farmer's convenience and choice
- It helps to buy on cash-avail discount from dealers
- KCC Scheme carries credit facility for 3 years – no need for seasonal appraisal
- This is maximum credit limit based on agriculture income under KCC
- Any number of withdrawals is allowed subject to credit limit
- The repayment of credit starts only after harvest
- The rate of interest is as applicable to agriculture advance
- The security, margin and documentation norms are the same as for agricultural advance

#### 4.0 Types of KCC

There is only one type of card in the form of KCC cum Pass Book by all banks. In case of some commercial bank, there is no issuance of card as such. However, there was disbursement of crop loan under the scheme for reporting purpose. The Regional Rural Banks (RRBs) have either issued Card-cum-Pass Books or a Card and a Passbook as KCC. The Co-Operative Banks had devised a Pass Book, which served the purpose of a Card cum – Passbook, containing all the details about the farmer and his borrowings. The cardholder is also covered by Accident Insurance, with benefit of Rs.1, 00,000, governed by the Bank's Insured Current Deposit Scheme. The Insurance is optional to the borrower. However, farmers are compulsorily covered under Personal Accident Insurance Scheme (PAIS).

#### 5.0 How to get KCC

The followings are the steps to obtain KCC

- The farmers may approach the nearest public sector bank and get the details about KCC.
- The eligible farmers will get a Kisan Credit Card and a Pass Book. The card has the name, address, particulars of land holding, borrowing limit, validity period, a passport size photograph of holder which may serve both as an identity card and facilitate recording of transactions on an ongoing basis.
- The borrower is required to produce the Card cum Pass Book whenever he/she operates the account.

#### 6.0 Salient Features of the KCC

The salient features of KCC are given below.

- i. Scope of Cover - This Scheme covers all the Kisan Credit Card Holders against death or permanent disability within the country.
- ii. Persons Covered - All card holders up to the age of 70 years, are covered by KCC.
- iii. Risk Coverage - The benefits under the scheme are as follows.
- iv. Death due to accident caused by outward, violent and visible means up to Rs.50,000/-
- v. Permanent total disability up to Rs.50,000/-



- vi. Loss of two limbs or two eyes or one limb and one eye up to Rs.50,000/-
- vii. Loss of one limb or one eye up to Rs.25,000/-
  - a) **Period of Master Policy** - Valid for a period of 3 years.
  - b) **Period of Insurance** - Insurance Cover will be in force for a period of one year from the date of receipt of premium from the participating Banks in cases where annual premium is paid. In case of three year cover, the period of insurance would be for three years from the date of receipt of premium.
  - c) **Sum insured:** The sum insured extends up to the value of threshold yield of the crop, with an option to cover up to 150% of average yield of the crop on payment of extra premium.
  - d) **Premium Subsidy:** 50% subsidy in premium allowed to Small and Marginal Farmers, to be shared equally by the Government of India and State Government/Union Territory. The Premium Subsidy is to be phased out over a period of 5 years.
  - e) **Premium** - Out of the Annual Premium of Rs.15/- per KCC holder, the Bank has to pay Rs.10/- and Rs.5/- has to be recovered from KCC Holder.
  - f) **Operational Procedure** - The servicing of the business will be undertaken by the four Insurance Companies on zone-wise basis. The United India Insurance Co Ltd covers Andhra Pradesh, Karnataka, Kerala, Andaman and Nicobar, Pondicherry, Tamil Nadu and Lakshadweep.
  - g) The Implementing bank branches have to remit the Insurance Premium on a monthly basis, along with the list of farmers to whom the KCC have been issued during the month.
  - h) **Claims Procedure - In case of death, disablement claims & death due to drowning** The Claim Administration will be done by the designated office of the Insurance Companies.

#### 7.0 Major Steps taken by NABARD

- i) The Co-operative Banks and RRBs were advised to enlarge the scope of the KCC Scheme to cover term loans for agriculture and allied activities, including a reasonable component to meet the consumption needs, besides the existing crop loan limit. The coverage of KCC was extended to landless labourers, oral lessees, tenant farmers, including defaulters.
- j) A Brochure on KCC Scheme, highlighting the salient features, advantages and other relevant information about the Scheme, was brought out by the Head Office. The Regional Offices were asked to circulate the Brochure to State Governments, their Departments, Commercial Banks, Cooperative Banks, RRBs and other agencies/officers concerned so as to generate wider awareness about the Scheme.
- k) NABARD conducts studies on KCC Scheme periodically to facilitate feedback on the ground level issues/problems so that changes, where necessary, could be considered.
- l) On the lines of instructions of RBI to Commercial Banks, the Cooperative Banks and RRBs have been advised, at their discretion, to pay interest at a rate based on their perception and other relevant factors on the minimum credit balances in the cash credit accounts under the Kisan Credit Cards of farmers during the period from 10th to the last day of each calendar month.
- m) RRBs were advised to initiate innovative publicity campaign in each area of operation in order to cater to all eligible farmers under KCC.

## 8.0 Kisan Credit Cards from leading banks in India

It is to be noted that the banks involved in the Scheme, issue credit cards with different numbers. There is not much difference in most of the features of these cards. The name of the Kisan Card is given against the respective bank, in Table-1.

## 9.0 Progress in Implementation of the Scheme in India

It is to be noted that since launching in August 1998, around 10.09 crore Kisan Credit Cards have been issued upto 31 March 2011 by Cooperative Banks, Regional Rural Banks and Commercial Banks put together. The KCC were implemented in all States and Union Territories (except Chandigarh, Daman & Diu and Dadra & Nagar Haveli), through all Cooperative Banks, RRBs and Commercial Banks participating in the Scheme.

### a. Capital Formation in India

Table – 2 shows Gross Capital Formation (GCF) in agriculture for the period from 2005-06 to 2009-10. It is clear that the amount of GCF in agriculture and allied sectors increased from Rs.86,611 crores in 2005-06 to Rs.1,33,377 crores in 2009-10. In total, GCF varied between 7.3 to 8.3 percent during the same period. The GCF in agriculture and allied activities as a proportion to GDP under the Agriculture Sector increased from 14.57 per cent in 2005-06 to 20.30 per cent in 2009-10. But the GCF in agriculture and allied activities as a proportion of total GDP varied between 2.66 to 3.09 per cent during the same period. The overall analysis of the Table indicates the fact that there has been an improvement in the Gross Capital Formation through agriculture and its allied activities.

### b. Agency Wise KCC Issued and Amount Sanctioned in India

The Agency-wise KCC issued and amount sanctioned for the period from 2006-07 to 2009-10 is given in Table-3. It is understood that the Cooperative Banks have issued a total of 373.61 lakhs cards which include 22.97 lakhs in 2006-07, 20.91 in 2007-08, 13.44 in 2008-09 and 12.17 in 2009-10. The sanctioned average amount of assistance varies from Rs.43,065 crores (minimum) to Rs.95,605 crores (maximum) during the same period. In the case of RRB, the minimum average value was Rs.39,915 crores while the maximum value was Rs.50,018 crores. The total cards issued by RRB was 125.73 lakhs. The Commercial Banks in India accounted for 378.96 lakh cards during four years (2006-2010). It is to be noted that the commercial banks sanctioned Rs.1,29,244 crores (maximum) in 2007-08, which was Rs.54,524 crores (minimum) in 2006-07.

The total Kisan Credit Cards issued by the three agencies (upto 30th November, 2009) was 878.30 lakh average cards and the total average sanctioned amount varies from Rs.54,769 crores in to Rs.1,04,205 crores per card and the overall cumulative sanctioned amount came to Rs.43,387 crores. It is to be noted from the comparison of three agencies that the Commercial Banks have issued the highest number of Kisan Credit Cards in India.

It is encouraging to record that substantial progress has been made in issuing the KCC to the farmers in India but still serious efforts are required for issuing the KCC to a larger number of helpless farmers. Only then the ultimate aim of helping the farmers would be achieved.

## 10.0 The Initiatives of Government of India

In order to protect the interests of agriculturalists, the Government of India took various initiatives. The following are the benefits derived from the initiatives taken by Government of India.

- KCC holders have been covered under Personal Accident Insurance Scheme against accidental death or permanent disability, up to maximum amount of Rs. 50000/- and Rs.



25000/- respectively. The premium burden will be shared by the card issuing institutions and the borrower in the ratio of 2:1.

- The Bankers were also advised to issue KCC to tenant farmers/ share croppers/oral lessee/joint liability groups.
- Banks were advised to cover all eligible farmers under KCC Scheme.
- With a view to making the Scheme more effective at ground level and serving the farmers in the way in which it was expected to do, Government of India had constituted a High Level Task Force to examine and suggest measures for improving the efficiency of KCC Scheme. The Report from Task Force has been submitted to Government of India on 30 June 2010.
- As desired by the Hon'ble Finance Minister of India, the bankers were advised to increase KCC coverage by 20% in number and also in amount during the financial year 2010-11 over the year 2009-10. Similar increased coverage is expected during 2011-12.

### 11.0 Suggestions to Improve the Use of KCC in India

The KCC may have to cover the Short Term Credit need of the farmers for purposes other than raising the crops. It is reported from the feedback from farmers that most of the Cooperative Banks had not been providing the Short Term Credit while sanctioning the credit limit to farmers under the Kisan Card. This could be due to the fact that NABARD refinance is only for loans to cover seasonal agricultural operations and other portion has to be met out of their own resources by the Co-operative banks.

It is observed that streamlining Credit Delivery Mechanism is necessary. The Delivery Mechanism is not sufficient because there are several improvements that need to be made to make agriculture an Industry.

It is to be noted that only an efficient and optimum production level of agriculture could sustain long-term viability. Hence there is a need to take appropriate policy measures on long-term viability of various initiatives on facilitating farmers' access to Short Term Credit in the form of KCC.

The banks should reduce their lending rate to the Agricultural Sector to seven per cent, with subvention from Government and Reserve Bank of India. The Interest Subvention is desirable taking into the higher cost of raising resources and lower margins by various rural financial institutions.

### Conclusion

Kisan Credit Card is one of the most innovative, widely accepted, highly appreciated and non-discriminatory banking product, with the aim to finance the agricultural sector. The paper observed that Kisan Credit Card within a short span of time has established itself as a fairly popular credit facility among the farming community. It is expected that this would help the farmers to gain easy and timely access to much desired institutional credit and the KC Card has been appreciated and accepted both by the bankers as well as the farmers. The Government of India may overview the implementation of KCC in India and take all possible steps to help the growth of the agricultural sector in India.

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**Table-1:** The Name of the Kisan Card issued by Bank in India

S.No	Name of the Banks	Name of the card
1.	Allahabad Bank	Kisan Credit Card (KCC)
2.	Andhra Bank	AB Kisan Green Card
3.	Bank of Baroda	BKCC
4.	Bank of India	Kisan Samadhan Card
5.	Canara Bank	KCC
6.	Corporation Bank	KCC
7.	Dena Bank	Kisan Gold Credit Card
8.	Oriental Bank of Commerce	Oriental Green Card (OGC)
9.	Punjab National Bank	PNB Krishi Card
10.	State Bank of Hyderabad	KCC
11.	State Bank of India	KCC
12.	Syndicate Bank	SKCC
13.	Vijaya Bank	Vijaya Kisan Card

Source: NABARD

**Table - 2**  
**Gross Capital Formation (GCF) in Agriculture (Rs. in Crore)**

Year	Ratio of GCF in Agriculture to (%)			
	GCF in Agriculture & Allied Activities	Total GCF	GDP in Agriculture & Allied Activities	Total GDP
2005-06	86,611	7.3	14.57	2.66
2006-07	90,710	6.6	14.65	2.54
2007-08	1,05,034	6.5	16.03	2.69
2008-09	1,28,659	8.3	19.67	3.09
2009-10(QE)	1,33,377	7.7	20.30	2.97

Sources: Economic Survey 2010-11 QE: Quick Estimates

**Table - 3**  
**Agency -wise KCC Issued and Amount Sanctioned**

Agency	Number of Card Issued (Rs. in lakh)					Amount released and Sanctioned (Rs. in Crore)				
	2006-07	2007-08	2008-09	2009-10	Total	2006-07	2007-08	2008-09	2009-10	Total
<b>Cooperative Bank</b>	22.97	20.91	13.44	12.17	373.6	13141 (-5720900)	19991 (-9560500)	8428 (-6270800)	5241 (-4306500)	1,38,229\$ (-3699800)
<b>RRB</b>	14.06	17.73	14.15	11.02	125.7	7373 (-5244000)	8783 (-4953800)	5648 (-3991500)	5512 (-5001800)	4,93,44\$\$ (-3924600)
<b>Commercial Banks</b>	48.08	46.06	58.34	8.45	379	26215 (-5452400)	59530 (-12924400)	39009 (-6686400)	6.657 (-7878100)	1,93,497* (-5106000)
<b>Total</b>	85.11	84.7	85.93	31.64	878.3	46729 (-5490400)	88262 (-10420500)	53085 (-6177700)	17329 (-5476900)	3,81,070 (-4338700)

Source: NABARD

Source: NABARD

Break-up (term loan is not available)

\$ Total amount sanctioned includes Rs. 2,859 crore for term loan under KCC for 2008-09

\$\$ Total amount sanctioned includes Rs. 2,304 crore for term loan under KCC for 2008-09

\* Total amount sanctioned includes Rs. 10,279 crore for term loan under KCC for 2008-09

**Note:** Figures in parentheses indicate the amount sanctioned.