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Cash-in Benefits of the Kisan Credit Card Scheme: Onus is Upon the Farmer

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The introduction of modern technology to agricultural sector has led to intensive use of inputs and the package of practices, resulting in manifold increase in the requirement of production credit. Credit from informal sources is available but with strings attached to it. Thus realising this fact, Government of India in 1969 nationalised fourteen major banks and six more were added to this category in 1980.

In spite of the various measures to rejuvenate farm credit, the flow of credit to agriculture sector remained quantitatively and qualitatively poor. The institutional sources of credit meet 51 per cent of the credit requirements of the farm sector (Rao, 2003). The non-institutional sources were mainly approached by the farmers due to lack of security assets with them, frequent needs, inadequate supply of institutional credit, undue delays, sophisticated procedure and malpractices adopted by institutional lending agencies (Singh, 1971; Singh H., 1971; Singh, 1973; Sharma, 1978; Nahatkar *et al.,* 2002; Rao, 2003).

With a view to inquire into the reasons for the tailbacks of the farm credit and suggest measures for improving the delivery systems as well as simplification of the procedures for farm credit, the Reserve Bank of India (RBI) had set up one man High Level Committee of Shri R.V. Gupta in December 1997. The Committee submitted its report in April 1998. It was against the background of this Committee's report that RBI in 1998 directed all Public Sector Banks (PSBs), Regional Rural Banks (RRBs) and co-operative banks to introduce Kisan Credit Card Scheme (KCCS) on the lines of the model scheme formulated by National Bank of Agriculture and Rural Development (NABARD) and in due course of time the KCCS was adopted by all the directed agencies.

At the all India level, the cumulative number of Kisan Credit Cards (KCCs) issued by all the implementing agencies as of, March 31, 2004, stood at 413.79 lac (Government of India, 2003-04), and the corresponding figure for Punjab was 13.88 lac (88th Meeting of State Level Bankers' Committee).

The KCCS aims at extending adequate and timely support from banking system to the farmer, to meet the crop production and ancillary activities. The credit limit

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(loan) is sanctioned in proportion to the size of owned land but some flexibility is also provided for the farmer cultivating leased-in land in addition to the owned holding. Further, the borrowing limit is fixed on the basis of proposed cropping pattern. Most of the banks are adhering to the Scales Of Finance (SOF) decided by the State Level Bankers Committee (SLBC) but some banks have fixed their own SOF, which are in all cases higher than those, recommended by SLBC. The nature of credit extended under KCCS is revolving cash credit, i.e., it provides for any number of withdrawals and repayments within the limit. This feature would provide flexibility and reduce the interest burden upon the KCCS beneficiary. Security and margins norms would be in conformity with the guidelines issued by RBI and NABARD from time to time. With effect from 2001-02 it was made obligatory for the implementing agencies to operate the KCCS with an in-built component of life-insurance for KCCS beneficiary. The KCCS as envisaged has substituted all other existing, institutional modes of short-term credit delivery.

To gain insight into the functioning of KCCS, the present study was carried out in the Punjab state with the following specific objectives: (i) to study the existing procedures of advancing credit under Kisan Credit Card Scheme (KCCS); (ii) to examine the adequacy of credit extended under Kisan Credit Card Scheme; and (iii) to evaluate the impact upon the efficiency of rural credit delivery system and identify the major constraints, if any of Kisan Credit Card Scheme.

METHODOLOGY

The Punjab and Sind Bank (P&SB) was purposively selected as it has sanctioned the highest number of KCCs (17576) in Punjab for the year 2002-03. Further, Ludhiana zone of P&SB was selected purposively from its eight zones in the Punjab state, as it (Ludhiana) has the highest KCC density (P&SB KCCs per 100 operational holdings). Thereafter, out of the twenty-eight rural bank branches of the P&SB in Ludhiana zone, five branches were selected. Three types of respondents were interviewed (a) KCC members, (b) Non-KCC members, and (c) bank managers. A sample of 10 per cent of KCC holdings, consisting of 26 small (less than 2 ha), 38 medium (2-6 ha) and 11 large (above 6 ha) were selected. The non-KCC holders comprising 11 small and 14 medium holders were selected. None of the large farmers in this category was found. The bank managers of selected bank branches were also interviewed to elicit their view about the implementation of KCCs. To examine the authenticity of the information regarding transaction details with the bank, the account of KCC-beneficiaries were also examined. The selected farmers were interviewed personally and the data pertained to the year 2002-03.

To work out the credit requirement on the farm, the model used was R=C+ 0.5D; where R= Credit requirement, C= Crop expenditure ,$C=\Sigma(\Sigma C_j)_i$, $D=0.5(\Sigma d_k)$, C_j = expenditure on j-th input of m-th crop, j= 1, 2…….8, where 1-value of seed, 2-Value of fertilisers and manures, 3-Value of pesticides, 4-value of fuel, 5-Irrigation charges, 6-labour charges, 7-Custom hiring payments and 8-land rent. d= expenditure on k-th item of dairy,

D=(Dairy expenditure) $\sum_{K=1}^{4} D_k$, k=1….4, 1-Value of concentrates, 2-Value of straw, 3-Green fodder, 4-Veterinary charges.

Tabular analysis was attempted to work out the short-term credit requirement, credit availability and credit gap. For the credit requirement, summation of 100 per cent of the expenditure on the purchased inputs, for raising the crops and 50 per cent of the expenditure on the purchased inputs in the case of dairy enterprise, were taken as proxy for the credit requirement. The reason for financing of only 50 per cent of the cash inputs on dairy was based on the premise that the returns from investment in dairy vary over a period of 10 to 30 days vis-à-vis pay-back period in the case of crop enterprise is six months. To assess the credit gap, credit extended under KCCS was contrasted with the short term credit requirements. A rating scale was used to analyse the opinion survey of the KCC beneficiaries with regard to the procedures of advance, adequacy of credit, etc.

Status of KCCS in India

It has been five years since the inception of the KCCS and at present its implementation has been taken up by 27 PSBs, 378 co-operative banks and 196 RRBs throughout the country. The co-operative banks account for 65 per cent of KCCs issued and 63 per cent of the amount sanctioned. The commercial banks (PSBs and RRBs) accounted for 35 per cent of KCCs issued and 37 per cent of the loan sanctioned.

Among all the states of India, Punjab leads the chart with highest KCCs penetration ratio of 118.17 per cent, followed by Haryana (85.75 per cent) and Andhra Pradesh (62.23 per cent) (Table 1). The all-India average stood at 32.44 per cent for the same period. The penetration ratio exceeding 100 in the case of Punjab indicates that for some operational holdings, there is more than one KCC.

Economic Characteristics of the Sample Farmers

The average operational holding of the small farm was 3.12 ha (Annexure 1) and the corresponding figures for the medium, large and overall farmer were 5.08, 10.26 and 5.16 ha respectively. The percentage of leased–in land decreased with the increase in farm size. In all, 72 per cent of the KCC beneficiary farms owned tractor. The total operated area of the small non-KCC farms was 5.72 ha and the corresponding figure for the medium and the average non-KCC farms was 9.92 and 8.07 ha. The percentage of leased-in land to total operated area in case of non-KCC beneficiaries for both small and medium farm classes was observed to be less as compared to KCC beneficiaries.

TABLE 1. COMPARATIVE STATUS OF KCCS IN PUNJAB WITH OTHER MAJOR STATES OF INDIA

Status	Cumulative progress as of Sept. 30, 2003				
	Cards issued (in lakh)	Number of operational holdings(in lakh)	Penetration Ratio	Amount sanctioned (in Rs. crore)	Percentage share of total cropped area to India total
(1)	(2)	(3)	(4)	(5)	(6)
Punjab	13.20	11.17		6,466.95	
	(3.89)	(1.06)	118.17	(7.8)	5.07
Haryana	13.12	15.30		5,926.64	
	(3.84)	(1.45)	85.75	(7.15)	3.15
Andhra Pradesh	57.81	92.90		9,581.64	
	(16.91)	(8.82)	62.23	(11.58)	6.87
	341.34	1052.10		82,825.10	
India	(100.00)	(100.00)	32.44	(100.00)	100.00

Source: Compiled from www.indiastat.com and *Statistical Abstract of Punjab* 2002.
Figures in parentheses indicate percentage of Punjab to India.
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Cropping Pattern and Enterprise Structure

The cropping intensity exhibited positive relationship with the increase in farm size (Table 2), i.e., 200, 201.19 and 201.46 per cent for small, medium and large farms respectively.

TABLE 2. CROPPING PATTERN OF THE SAMPLE KCC-BENEFICIARY AND NON-BENEFICIARY FARMERS

(acres)

Crops	Farm Size Category						
(1)	Small (2)	Medium (3)	Large (4)	Overall (5)	Small (6)	Medium (7)	Overall (8)
Kharif season	KCC-beneficiary				Non-KCC beneficiary		
Paddy	6.89	9.97	22.64	10.76	4.48	8.95	6.98
	(44.77)	(39.45)	(44.31)	(41.99)	(39.05)	(44.96)	(43.01)
Maize	0.04	0.63	0.68	0.43	0.27	0.16	0.21
	(0.25)	(2.5)	(1.33)	(1.69)	(2.35)	(0.80)	(1.30)
Pulses	0	0.37	0.55	0.27	0.1	0.18	0.14
	(0)	(1.46)	(1.06)	(1.04)	(0.87)	(0.90)	(0.87)
Vegetables	0	0.54	0	0.27	0.55	0	0.24
	(0)	(2.14)	(0)	(1.04)	(4.80)	(0)	(1.48)
Others*	0.77	1.17	1.86	1.13	0.35	0.7	0.55
	(5.35)	(4.63)	(3.65)	(4.42)	(3.05)	(3.52)	(3.57)
Rabi season							
Wheat	6.92	9.82	22.64	10.69	4.48	9.05	7.03
	(44.96)	(38.83)	(44.30)	(41.71)	(39.06)	(45.45)	(43.31)
Rapeseed-	0.04	0.22	0.86	0.25	0.30	0.27	0.28
Mustard	(0.25)	(0.89)	(1.69)	(0.99)	(2.62)	(1.36)	(1.73)
Vegetables	0.00	1.16	0.00	0.59	0.55	0.00	0.24
	(0.00)	(4.58)	(0.00)	(2.29)	(4.80)	(0.00)	(1.48)
Others*	0.74	1.39	1.86	1.24	0.39	0.60	0.51
	(4.81)	(5.52)	(3.64)	(4.82)	(3.40)	(3.01)	(3.27)
Total	15.40	25.27	51.09	25.64	11.47	19.91	16.18
cropped area	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
Total operated area	7.71	12.56	25.36	12.75	5.72	9.92	8.07
Cropping Intensity	199.79	201.19	201.46	201.09	200.52	200.71	200.50

Figures in parentheses indicate percentage to total.
* Others include fodder.

Paddy and wheat crop dominate the cropping pattern covering more than 40 per cent area in *kharif* and *rabi* season on nearly all the categories of farmers followed by green fodder in *rabi* and *kharif* seasons respectively. It was observed that the cropping intensity on non-KCC farmers were lower than KCC beneficiary. The percentage share of dairy in gross income for the small (19.83 per cent), medium (20.01 per cent) and large (21.90 per cent) farmers was observed to be directly proportional to the farm size category (Table 3). The gross returns per hectare were the highest in the medium farm (Rs.100,608.25) followed by large (Rs. 97,856.36) and small farm (Rs. 90,901.47). The variable expenses per hectare were also the highest in the case of medium farms (Rs. 56,851.57) followed by small (Rs. 56,005.03) and large farms (Rs. 53,221.16). The average returns to fixed farm resources (RFFR) per hectare (ha) exhibited positive relationship with the increase in the farm size. The gross returns per ha on the small KCC farms were observed to be 103.36 per cent of that of the small non-KCC farms. Variable expenses were less on KCC farms than that of non-KCC farms.

TABLE 3. AVERAGE RETURNS TO FIXED FARM RESOURCES (RFFR) ON THE SAMPLE KCC-BENEFICIARY FARMS

(Rs.)

Gross income from	KCC – beneficiary				Non - beneficiary		
	Small	Medium	Large	Overall	Small	Medium	Overall
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(A) Crops	227,372.40 (80.17)	408,829.90 (79.99)	784,176.80 (78.10)	400,975.50 (79.48)	142,340.45 (69.92)	24,750.00 (75.96)	201,233.16 (73.97)
(B) Dairy	56,240.18 (19.83)	102,260.00 (20.01)	219,829.50 (21.90)	103,550.00 (20.52)	61,228.75 (30.08)	78,342.07 (24.04)	70,812.21 (26.03)
(C) Sub-total	283,612.60 (100.00)	511,089.90 (100.00)	1004,006.30 (100.00)	504,525.50 (100.00)	203,569.20 (100.00)	325,848.09 (100.00)	272,045.37 (100.00)
Variable expenditure on							
(D) Crops	142,671.90	226,102.80	405,490.90	223,490.30	92,995.45	133,095.07	115,451.24
(E) Dairy	32,063.85	62,703.16	140,558.20	63,500.27	37,827.27	45,364.28	42,047.99
(F) Sub-total	174,735.70	288,806.00	546,049.10	286,990.60	130,822.72	178,459.35	157,499.23
RFFR (C) – (F)	108,876.90	222,283.90	457,957.20	217,534.90	72,746.48	147,388.74	114,546.14
Gross returns per hectare	90,901.47	100,608.25	97,856.36	97,776.26	35,589.02	32,847.59	33,710.70
Variable expenses per hectare	56,005.03	56,851.57	53,221.16	55,618.33	22,871.10	17,989.85	19,516.63
RFFR per hectare	34,896.44	43,756.68	44,635.20	42,157.93	12,717.91	14,857.74	14,156.89

Figures in parentheses indicate percentage to total.

Procedure of Advancing Credit

Four public sector bank branches, i.e., Punjab and Sind Bank, Punjab National Bank, State Bank of Patiala and Oriental Bank of Commerce were selected to study the procedures of advancing loan. All the commercial banks have the similar procedures of advancing credit under KCCs with slight variations. But the procedures and security norms vary in the case of the credit under co-operative society. The major steps involved were: (a)Preliminary interview; (b) Filling of the application form: It required photograph, no dues certificate from the credit institution in the service area and *fard jamabandi*; (c) Pre-sanction inspection; (d) Processing of the application; (e) Execution of the security document: includes demand promissory note, continuing security letter, letter of guarantee, letter of declaration and undertaking and mortgage deed and (f) Disbursement of loan.

Most of the banks sanctioned the limit amount as per the recommendation of the scale of finance decided by the state level bankers committee. But some banks have fixed their own scale of finance, which are on the higher side. The rate of interest charged during the study period are:

Upto Rs. 50,000	8.5 per cent per annum,
Rs. 50,001 to 2,00,000	11 per cent per annum,
Above Rs. 2,00,000	11.5 per cent per annum,

Procedure for Co-operative Banks

The co-operative KCCs required fewer documents. No mortgage deed is obtained, only *fard jamabandi* and guarantor are required for the co-operative KCCs.

Adequacy of Credit Sanctioned

To work out the credit requirement of the farmer budgeting technique was used. As limits are sanctioned in proportion to the size of farm thus the limit sanctioned was the highest in the case of large farm (Rs. 182,272.70) followed by medium (Rs. 101,842.10) and small farm (Rs 77,500) (Table 4). The value of x^2 came out to be 21.52 and significant, shows the close association between limit sanctioned and the class of farmer. On the other hand, the limit sanctioned per hectare was inversely proportional to the farm size category. This (inverse relation) phenomenon is quite favourable for the banks and KCCS in particular, as the institutional sources of credit are often accused of the skewness in favour of the large farmers. Some researchers reported the skewness (Singh,1972; Singh and Mruthyunjaya, 1994; Reddy *et al.*, 1999). The small and marginal farmers whose number is the largest in Punjab state get merely 27.02 per cent of the total agricultural credit (Thind, 2002). The small and marginal farmers had limited access to formal sources of loan (Bhende, 2002). The reason for the asymmetry between the conclusion of our study and of the above mentioned reports could be due to the fact that the present study was conducted in the agriculturally most advanced region of Punjab district Ludhiana; (Kaur and Kaur, 2003) whereas the studies reviewed pertain to the whole of Punjab and Karnataka.

The credit gap for the *kharif* season on the small farm was estimated at 2.23 per cent (Table 4). For the same season the credit gap on medium and large farms was estimated to be 20.36 and 23.90 per cent, respectively. The same trend of favourable positive relationship, between credit gap and farm size category was observed in the *rabi* season. The credit gaps on small, medium and large farms being 2.48, 21.40 and 22.85 per cent respectively; the overall average absolute credit gap per farm, for *kharif* and *rabi* season was estimated to be Rs. 4,300.87 (17.42 per cent) and Rs. 4,389.14 (17.71 per cent) respectively.

TABLE 4. CREDIT CAP ON PER FARM AND PER HECTRE OF KCC-BENEFICIERY FARM

(Rs.)

	Category of sample KCC beneficiary			
Kharif season	Small	Medium	Large	Overall
(1)	(2)	(3)	(4)	(5)
(I) Limit sanctioned				
(a) per farm	77500.00	101842.10	182272.70	105200.00
(b) per hectare	24839.74	20047.66	17765.37	20387.60
(II) Credit requirement				
(a) per farm	79235.91	127886.00	239512.30	127392.50
(b) per hectare	25396.13	25174.41	23344.28	24688.47
(III) Credit gap [(II)-(I)]				
(a) per farm	1735.91	26043.89	57239.60	22192.49
(b) per hectare	556.39	5126.75	5578.91	4300.87
(IV) Credit gap in percentage terms [(III)/(II)*100]	2.23	20.36	23.90	17.42
Rabi season				
(V) Credit requirement				
(a) per farm	79467.87	129568.40	236257.70	127848.00
(b) per hectare	25470.47	25505.59	23027.07	24776.74
(VI) Credit gap [(V)-(I)]				
(a) per farm	1967.87	27726.30	53985.00	22647.98
(b) per hectare	630.73	5457.93	5261.70	4389.14
(VII) Credit gap in percentage terms [(III)/(II)*100]	2.48	21.40	22.85	17.71

Utilisation of the Limit

The limit sanctioned in most of the cases has some scientific basis and in most of the cases the requirements fulfilled by the KCC limit were in tandem with the recommendations of the policy makers but as in the methodology notes it was defined that owned funds were not to be reckoned in the estimation of the credit requirement and if the owned funds are reckoned in the computation of the credit requirement then the results could reflect different dimensions alltogether. This probably is the reason why the KCC limit was observed to divert from the avowed purpose. No doubt the KCC limit is not a tied loan, but it is expected that the farmer will make judicious use of the limit. The crucial factor to judge the utilisation pattern of the loan advanced is the transaction habit of the borrower.

The limit availed of was recorded from the respective branches on two different dates in the *rabi* 2003 season, the dates being December 15, 2003 and March 30, 2004. It was noticed that 96.19 per cent of the limit sanctioned to small farms was availed of on December 15, 2003. The corresponding figures for the medium and large farms and overall were 82.73, 94.04 and 89.04 per cent respectively. No transaction was recorded on the small farm after December 15, 2003. But in the case of medium and large farms very few transactions were recorded and the limit availed of marginally increased to 92.88, 97.41 and 95.85 per cent for medium, large and the overall sample farmers. In totality, 80 per cent of the farmers fully availed of their limits. These farmers made lump sum withdrawals within the span of 1-2 days of the repayment of the limit.

The purchase of cash inputs for the farm is spread throughout the agriculture season, then why are the farmers making lump sum withdrawals? To study this phenomenon of the peculiar transaction habit, it was correlated with diversion of KCC limit.

In all 15.38, 28.95 and 9.09 per cent of small, medium and large KCC beneficiaries, respectively, were observed to divert their limit to on-farm investments. The corresponding figures for the off-farm diversions were 73.07, 44.74 and 27.27 per cent, respectively. Overall the number of diversions on and off the farm was as high as 73.33 per cent of the total KCC beneficiaries. The amount diverted of the limit sanctioned was estimated at Rs. 37,413.33 i.e., 35.56 per cent on the overall KCC beneficiary farm. The amount diverted on the small farm was the highest at Rs. 45,423.08 or 58.61 per cent of the limit sanctioned. Also the amount diverted on the small farm for off-farm use, was observed to be the highest at Rs. 37,692.31, i.e., 48.63 per cent of the limit amount sanctioned (Table 5).

Efficiency of Rural Credit Delivery System and the Constraints of KCCS

To study the efficiency of any credit innovation, it is foremost to analyse the cost of the credit and how the two components of the cost, namely, overhead cost and the interest cost are spread across the various farm size classes.

For a credit delivery system to be efficient all the costs incurred should assume progressive structure. It is noteworthy that the overhead charges were almost constant, unlike interest costs irrespective of the size of limit and hence the category of farmer. Over head charges were also not clear to the farmers and were not given the receipt of the same. Many farmers complained of irregularities in the judicial system, which perplex them in understanding the costs incurred in obtaining mortgage deed. It was observed that the card charges and the incidental charges levied by bank are constant for all the farm size groups (Table 6). If the overhead costs were annualised, the cost of acquisition of Rs. 100 for one year through KCCS, worked out to Rs.11.27, Rs. 11.28 and Rs. 11.54 in the case of small, medium and large farmers respectively. This lacuna of disproportionate sharing of the overhead costs among the farm size classes still haunts the efficiency of rural credit delivery system.

TABLE 5. DIVERSION OF KCC - LIMIT

(Rs.)

Source (1)	Small (2)	Medium (3)	Large (4)	Overall (5)
On farm				
Number of diversions	4.00	11.00	1.00	16.00
	15.38*	28.95*	9.09*	29.09*
Amount diverted	7,730.77	16,315.78	2,272.73	11,280.00
	(9.98)	(1.51)	(1.25)	(10.72)
Off farm				
Number off farm	19.00	17.00	3.00	39.00
	73.07*	44.74*	27.27*	52.00*
Amount diverted	37,692.31	22,405.26	12,727.27	19,666.67
	(48.63)	(2.07)	(6.98)	(18.69)
Total number of	23.00	28.00	4.00	55.00
diverters	88.46*	73.68*	36.36*	73.33*
Total amount diverted	45,423.08	38,421.05	15,000.00	37,413.33
	(58.61)	(3.58)	(8.23)	(35.56)
Source of diversion				
(i) Social ceremonies				
Number of farmers	5.00	2.00	0.00	7.00
	(26.32)	(11.76)	(0.00)	(17.95)
(a) Amount	17,884.62	1,973.68	0.00	7,200.00
	(47.45)	(8.93)	(0.00)	(27.55)
(ii) Sub- lending	2.00	5.00	3.00	10.00
Number of farmers	(10.52)	(29.41)	(100.00)	(25.64)
Amount (a)	1,730.77	10,789.47	12,727.27	7,933.33
	(4.59)	(48.81)	(100.00)	(30.06)
(iii) Other business				
Number of farmers	3.00	0.00	0.00	3.00
	(15.79)	(0.00)	(0.00)	(7.69)
(a) Amount	11,153.85	0.00	0.00	3,866.67
	(29.59)	(0.00)	(0.00)	(14.80)
(iv) Settling old debt	8.00	10.00	0.00	18.00
Number of farmers	(42.11)	(58.82)	(0.00)	(46.15)
	5,000.00	9342.11	0.00	6,466.67
(a) Amount	(13.27)	(42.26)	(0.00)	(24.74)
(v) Building of house				
Number of farmers	1.00	0.00	0.00	1.00
	(5.26)	(0.00)	(0.00)	(2.57)
(a) Amount	1923.08	0.00	0.00	666.67
	(5.10)	(0.00)	(0.00)	(2.55)
Total				
Number of farmers	19.00	17.00	3.00	39.00
	(100.00)	(100.00)	(100.00)	(100.00)
(a) Amount	37,692.31	22,405.26	12,727.27	19,666.67
	(100.00)	(100.00)	(100.00)	(100.00)

Figures in parentheses indicate percentage to total. Where (a) indicates average per sample farmer.

TABLE 6. BREAK-UP OF OVERHEAD AND INTEREST COSTS INCURRED BY THE SAMPLE KCC BENEFICIARIES IN THE ACQUISITION OF LOAN THROUGH KCCS.

(Rs.)

Costs	Category of sample KCC beneficiary			
	Small	Medium	Large	Overall Average
(1)	(2)	(3)	(4)	(5)
(A) Overhead costs				
(1) Card charges	66.67	66.67	66.67	66.67
(2) Incidental charges	100.00	100.00	100.00	100.00
(3) Legal fee	238.46	239.03	250.00	240.44
(4) Miscellaneous costs (in court and stationery)	158.96	140.35	186.36	153.56
Sub-total (1)+(2)+(3)+(4)	564.09	546.05	603.03	560.67
Interest cost	8,167.30	10,937.17	20,430.68	11,369.33
Total (A)+(B)	8,731.39	11,483.22	21,033.71	11,930.00
Overhead cost	0.68 (6.00)	0.56 (5.00)	0.35 (3.00)	0.57 (5.00)
Interest cost	10.58 (94.00)	10.72 (95.00)	11.19 (97.00)	10.77 (95.00)
Total cost per Rs.100	11.27 (100.00)	11.28 (100.00)	11.54 (100.00)	11.34 (100.00)

Figures in parentheses indicate percentage to total.

Multiple Agency Approach in Advancing to Agriculture

An interesting fact came to light in the case of KCC beneficiaries. Table 7 shows that besides the KCC limit, 73.33 per cent KCC beneficiaries were known to be accessing other sources of credit also. The major other source of credit in the case of the all farm classes was co-operative credit. Almost all these respondents were in the practice of availing of credit in kind in the shape of fertiliser and also pesticides in very few cases. The average amount availed of per borrower showed increasing trend with the increase in the farm size. But the number of the medium farm KCC beneficiaries was comparatively lower at 65.79 per cent. It clearly indicates the poor co-ordination among the institutional sources of the credit. Even the “no dues” certificate could not solve the problem of double financing. If multiple agency approach in financing agriculture is to work efficiently then it has to be in a very well regulated manner, otherwise double financing will take its toll on the farmers.[1]

Besides accessing co-operative credit, 30.77 per cent of the small and 28.95 per cent of the medium KCC beneficiaries were observed to be still in the grip of the money lenders and the average loan amount taken in the study period was Rs. 16,500 and Rs. 15,000 in the case of the small and medium borrowers respectively.

On an average 54.54 per cent of the small non–KCC farmers were getting Rs. 15,000 from the non-institutional sources of the credit. In the case of the medium non-KCC farmers only 14.28 per cent were reported to be getting credit from the non-institutional sources

TABLE 7. SNAPSHOT OF CREDIT BY KCC BENEFICIARIES FROM OTHER SOURCES

Source (1)	Small (2)	Medium (3)	Large (4)	Overall (5)
Co-operative society				
Number of farmers	21.00 (80.76)	25.00 (65.79)	9.00 (81.81)	55.00 (73.33)
Amount (in Rs.)				
(a)	16,403.85	21,973.68	53,181.82	24,620.00
(b)	20,309.52	33,400.00	65,000.00	33,572.73
Commission agent				
Number of farmers	8.00 (30.77)	11.00 (28.95)	0.00	19.00 (25.33)
Amount (in Rs.)				
(a)	5,076.92	43,42.11	0.00	3,960.00
(b)	16,500.00	15,000.00	0.00	15,631.58
Total				
Amount (in Rs.)	21,480.77	26,315.79	53,181.82	28,580.00

Figures in parentheses indicate percentage to total farmers in the sample.
(a) Average per sample farmer; (b) Average per borrower.

Opinion Survey of Non-KCC Farmers

To find out the practical reasons of non adoption of KCCS by these farmers, an opinion survey was carried out on the 25 non-KCC farmers referred to earlier and 12 additional non-KCC farmers were located in the Punjab Agricultural University "Kisan Mela 2004". The following results of the opinion survey pertain to 37 non-KCC members.

From Table 8 it can be said that the fear factor of non-repayment of loan is the highest in the case of small farmers. In all 64 per cent small farmers responded that the fear of non-repayment is keeping them away from the institutional credit source.

TABLE 8. OPINION SURVEY OF NON KCC MEMBERS FOR THEIR NON ADOPTION OF KCCS.
(per cent)

Reasons (1)	Small (2)	Medium (3)	Overall average (4)
Fear of non-repayment	64 (9)	13 (3)	32 (12)
Satisfied with owned resources	29 (4)	75 (17)	57 (21)
Bad experience in past with the institutional source of credit	7 (1)	8 (2)	8 (3)
Lack of Awareness	0	4 (1)	3 (1)
Total	100 (14)	100 (23)	100 (37)

Figures in parentheses indicate number of respondents.

The farmers opined that the loan from the commission agent is repayable as the harvested produce makes its way to the market through commission agent and there is practice of deducting the loan amount from the sale proceeds of the agricultural produce. In the case of medium farmers, 75 per cent have not adopted the KCCS as they were satisfied with their own funds. Lack of awareness by the farmers regarding the benefits of institutional credit was recorded in 3 per cent cases of the total sample. Bad experience with institutional source of credit especially with the co-operative credit was also reported by 8 per cent of the farmers. It is noteworthy that none of the farmers responded that institutional credit was denied to him.

Farmers' Perception about KCCS

Opinion survey was carried out on the KCC beneficiaries and the various features of KCCS were classified in to three-point level of satisfaction as shown in Table 9.

TABLE 9. RATING OF THE VARIOUS FEATURES OF KCCS IN TO THREE LEVELS OF SATISFACTION BY THE SAMPLE KCC- BENEFICIARIES

(per cent)

Feature description	Level of Satisfaction		
	I	II	III
(1)	(2)	(3)	(4)
Timely availability of credit	91	9	0
Adequacy of limit	79	16	5
Procedure of making fresh KCC limit	41	41	18
Reduction in cost of accessing credit	73	16	11
Simplicity in annual renewing of KCC-limit	96	4	0
Operational efficiency of KCC- account	83	17	0
Reduction in interest burden due to revolving cash credit nature of KCC- limit	100	0	0
Drawing cash at any branch of the concerned bank	0	0	0

Note : 'I' indicate extremely satisfactory; 'II' indicates average and 'III' indicates below average

In all, 91 per cent of the respondents were extremely satisfied with the time taken in advancing KCC limit, 79 per cent responded that the limit sanctioned was adequate. As far as the procedure is concerned, the response was average to satisfactory but 18 per cent responded below average. In most of the cases it was reported that there was no problem at the bank level but in obtaining security documents, especially the procedure to obtain mortgage deed was found to be cumbersome. As many as 73 per cent of the farmers were satisfied with the present cost of accessing KCC limit but 11 per cent opined that the said cost can be decreased further. The procedure of annual renewing of the KCC- limit was reported to be satisfactory in most of the cases as the letter of continuity is necessarily taken as the document while advancing KCC limit.

As for the operational efficiency of the KCC limit, almost all the farmers were satisfied. Almost in all cases KCC limit was brought to credit two times in the financial year. Only this feature irked some farmers as they suggested that at the time of their repayment only the interest amount should be charged instead of the principal amount plus interest amount. It was heartening to note that all the respondents were aware of the benefits of the revolving cash credit nature of the KCC limit. But they did not harness this benefit as 80 per cent of the farmers were withdrawing the KCC limit in lump sum. None of the farmers was aware of the feature of withdrawing limit at any branch of the concerned bank. Even the bankers admitted that this system is quite impossible unless all the transactions were electronically recorded and transmitted across the bank branches.

To know the constraints in the working of KCCS, the respondents were asked about the seven problems identified during the pre-testing (Table 10). It was revealed

TABLE 10: FREQUENCY DISTRIBUTION OF THE KCC- BENEFICIARIES RESPONDING AFFIRMATIVE TO THE PROBLEM IN ACCESSING KCC- LIMIT

Problem description	Category of the sample KCC beneficiary			
	Small	Medium	Large	Overall
(1)	(2)	(3)	(4)	(5)
Obtaining suitable securities	20 (76.92)	29 (76.31)	7 (63.63)	56 (74.67)
Too many intermediaries	24 (92.30)	30 (78.94)	6 (54.54)	60 (80.00)
Finding guarantor	14 (53.85)	10 (26.31)	0 (0)	24 (32)
In obtaining no- due certificate	14 (53.85)	15 (39.47)	2 (18.18)	31 (41.33)
Attitude of loan officer	2 (7.69)	1 (2.63)	0 (0)	3 (4)
Illiteracy of the borrower	12 (46.15)	11 (28.95)	2 (18.18)	25 (33.33)
Bribery charges	0 (0)	0 (0)	0 (0)	0 (0)

Figures in parentheses indicate percentage to total.

that 80 per cent of the respondents felt that there are too many intermediaries while fixing the fresh KCC limit. For this problem 92.30 per cent small KCC beneficiaries responded in affirmative. Obtaining securities was a major problem for the KCC beneficiaries (74.67 per cent). Finding a guarantor was found to be more cumbersome job for the small (53.85 per cent) as compared to the medium (26.31 per cent) and large (0 per cent) KCC beneficiaries. As for the attitude of the loan officer, it was quite satisfactory and not a problem for 96 per cent of the KCC beneficiaries. Illiteracy of the borrower was a problem for 33.33 per cent of the respondents. Here even the literate farmers expressed uneasiness, for they were not well versed with the use of the various documents required for the KCC credit. It was interesting that none of the KCC respondents made bribery charges against the bank officers.

SWOT ANALYSIS FOR THE KCCS

Strengths

1. Credit sanctioned per acre, to small farmer, was observed to be more than the other farm size classes.
2. There is no evidence, as per the information that the small farmers are being neglected by the KCCS. But while looking out for non-KCC farmers, only small and medium farmers were located and these farmers need to be convinced about the benefits of the KCCS.
3. Farmers are practicing debt management, which is helping them to save on the interest component on the debt.

Weaknesses

1. KCCS was not able to flush out the double financing (73 per cent), owing to lack of co-ordination between institutional sources of credit.
2. KCC borrowers (25 per cent) was still found to be in the grip of the money lenders.
3. The amount diverted, as per cent of limit sanctioned was estimated to be as high as 35.56 per cent.

Opportunities

Farmers can be issued a passbook with an authenticated record of land and the borrowings. The banks should accept the same as valid title for the purpose of mortgage. This will save the farmer from cumbersome process of registering the mortgage deed in the name of the bank. This type of system for getting the loans, is already being followed by the financial institutions for the loans against urban property. Hence there should not be any legal complications in implementing this suggestion.

Threat

As such there is no direct threat to the KCC beneficiaries but as far as the rural banking system is concerned, the problem of non-performing assets (NPAs) can paralyse the KCCS. No doubt the present recovery (about 97 per cent) as stated by the bank officials, in the case of KCCS is quite satisfactory but this is a result of the debt management. How far the banks can pull up clearly depends upon the support from the non-institutional source of credit, as it is the conduit for the debt management.

CONCLUSIONS AND SUGGESTIONS

The KCCS aims at adequate and timely support from the banking system to the farmer to meet the credit needs of crop production and ancillary activities. The cropping intensity and RFFR exhibited positive relationship with the farm size, i.e., 200, 201.98 and 201.46 per cent and Rs. 34,896.44, Rs. 43,756.68 and Rs. 44,635.20 per hectare for the small, medium and large farms respectively. On the other hand, credit gap sanctioned was inversely proportional to the farm size, i.e., 2.23, 20.36, 23.90 per cent for the small, medium and large farms respectively. As many as 73 per cent of the KCC beneficiaries were satisfied with the present cost of accessing the KCC limit, all the farmers were satisfied with the operational efficiency of the KCCS. The major constraints in the working of the KCCS were too many intermediaries in obtaining the suitable securities and finding the guarantor. All the farmers were quite satisfied with the attitude of the loan officers.

Thus, by and large, the KCCS can be termed as quite efficient especially when it comes to the fulfillment of the short term production credit requirements of all farm size classes. The credit gap on the small farm was modest and could be bridged by the owned funds to a substantial and reasonable extent. In the present study owned funds were not taken into account. Also the credit gap demonstrated favourable positive relationship with the increase in the farm size.

As for the further simplification of the procedure of extending credit under KCCS, which still irks the beneficiaries, farmers can be issued a passbook with an authenticated record of the land and the borrowings. The bank should accept the same as the valid title, for the purpose of the mortgage. This step will save the farmer, from the cumbersome process of registering the mortgage deed in the name of the bank. Above all, this type of procedure would be analogous to the procedure of advancing loan against the urban property, where the original registry in the name of borrower serves as collateral. So, there should be no legal complications in the implementation of this suggestion.

NOTE

1. There are some extreme examples in case of large farmers, a farmer having 15 ha of operational holding, Rs. 3 lakh as credit limit, out of that the large amount of money was given to commission agent by the farmers at higher rate of interest.

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ANNEXURE 1. ECONOMIC CHARACTERISTICS OF THE SAMPLE FARMERS

(ha.)

Particulars	KCC-beneficiary				Non KCC-beneficiary		
	Small	Medium	Large	Overall	Small	Medium	Overall
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Owned	1.45 (46.56)	3.60 (70.79)	7.54 (73.50)	3.43 (66.51)	1.60 (69.84)	3.58 (89.20)	2.72 (83.15)
Leased-in	1.67 (53.44)	1.68 (32.98)	2.72 (26.50)	1.83 (37.37)	0.70 (30.16)	0.43 (10.80)	0.55 (16.85)
Leased-out	0	0.19 (3.77)	0	0.10 (1.88)	0	0	0
Total operational holding	3.12 (100)	5.08 (100)	10.26 (100)	5.16 (100)	2.31 (100)	4.01 (100)	3.27 (100)
Number of farmers owning tractor	11 42.30*	32 84*	11 100*	54 72*	5 45*	7 50*	12 48*

Figures in parentheses indicate percentage to total operational holding.
Figures with* indicate percentage to sample.