

## **FINANCIAL INCLUSION VIA KISAN CREDIT CARD SCHEME**

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### **ABSTRACT**

The importance of an inclusive financial system has been widely recognized in the economy in recent years. Financial inclusion is seen as a policy priority in most of the developing countries. The same is the case with India. An inclusive financial system can help to reduce the growth of informal sources of credit which are often found to be exploitative. An all inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services. By means of this paper, an effort has been made to delve deep into the efforts undertaken by central bank of India for the purpose of financial inclusion by means of introducing Kisan credit card scheme. All the aspects pertaining to Kisan credit card scheme have been covered. Simultaneously, evidence has been taken from data sources to study the progress in this way.

**KEYWORDS:** Financial inclusion, financial exclusion, KCC.

### **INTRODUCTION**

Financial inclusion is a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. This definition emphasizes several dimensions of financial inclusion, viz., accessibility, availability and usage of the financial system. The promotion of an inclusive financial system is considered a policy priority in many countries. An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. In addition, access to appropriate financial services can significantly improve the day-to-day management of finances.

Financial inclusion is important for improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups. Financial exclusion, in terms of lack of access to credit from formal institutions, is high for small and marginal farmers and some social groups. Apart from formal banking institutions, which should look at inclusion both as a business opportunity and social responsibility, the role of the self-help group movement and microfinance institutions is important to improve financial inclusion.

## **LITERATURE REVIEW**

Leyshon and Thrift (1995) define financial exclusion as referring to those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system. According to Sinclair (2001), financial exclusion means the inability to access necessary financial services in an appropriate form. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions. Carbo et al. (2005) have defined financial exclusion as broadly the inability (however occasioned) of some societal groups to access the financial system. The Government of India's 'Committee on Financial Inclusion in India' begins its report by defining financial inclusion "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost" (Rangarajan Committee 2008).

## **OBJECTIVES OF THE STUDY**

1. To study the Kisan credit card scheme.
2. To make state-wise and temporal comparison of the progress made by the scheme for financial inclusion.

## **SCOPE OF THE STUDY**

This study is descriptive in nature. We have tried to thoroughly study the major aspects of Kisan Credit card scheme like features, benefits, eligibility, documents required, process involved etc. An effort has also been made to make temporal and state wise comparison of the performance of this scheme.

## **RESEARCH METHODOLOGY**

For this study, secondary data has been collected through different articles, research papers and reports published about financial inclusion and kisan credit card scheme. Data on progress of Kisan Credit card scheme has been taken from the data sources of Reserve Bank of India. To analyze the data, simple tables have been used.

## **KISAN CREDIT CARD SCHEME**

Kisan Credit Card (KCC) is an initiative by the Government of India to ensure that farmers of the country have access to credit at an affordable rate. This scheme was launched in August 1998 based on the recommendations of a special committee formed for inputs on loans and agricultural welfare. KCC may also be referred to as Kisan Credit Card Loan as

it offers term loan to farmers in order for them to cover the costs of cultivation, harvest and farm maintenance.

It was found that farmers had to heavily rely on non-institutional credit sources for their farming needs such as purchase of seeds, pesticides, fertilizers, etc. Banks or other financial institutions had lengthy and cumbersome processes which used to deter farmers from approaching them and also caused unnecessary delays. However, the informal or unorganized lending market exploited farmers. Their exorbitant interest rates ensured that the farmer community remained in debt perpetually. Hence, the Kisan credit card scheme was launched to guarantee availability of sufficient, timely and cost-effective funds to farmers in a hassle-free manner.

### **OBJECTIVES**

The scheme aims at providing adequate and timely credit to the farmers under single window for fulfilling their cultivation and other needs as mentioned below:

- To meet the short term credit requirements for cultivation of crops
- Post harvest expenses
- Produce Marketing loan
- Consumption requirements of farmer household
- Working capital for maintenance of farm assets, activities allied to agriculture, like dairy animals, inland fishery and also working capital required for floriculture, horticulture etc.
- Investment credit requirement for agriculture and allied activities like pump sets, sprayers, dairy animals, floriculture, horticulture etc
- Short term credit requirements of rearing of animals, birds, fish, shrimp, other aquatic organisms, capture of fish.

### **FEATURES OF THE SCHEME**

- All agricultural farmers are eligible to get benefit from the Kisan Credit Card Scheme. This includes farmers who own their own land, tenant farmers, share croppers and lessees.
- The National Crop Insurance Scheme covers the crops eligible for KCC. The scheme offers some protection to the farmers in a poor crop season.
- The biggest advantage of this scheme is the simplicity of the credit process. This translates into quicker and timely availability of funds for the farmers.

- There is a lot of flexibility in the repayment tenure of the Kisan Credit Card Loan. There is also a possibility of extending the repayment period in case of a bad crop turnout due to natural calamities. Farmers are also offered subvention for timely and prompt repayments.
- It ensures assured availability of financial resources at affordable interest rates.
- It provides insurance coverage (personal accident and asset) for the recipient of the KCCs.
- It provides facility to withdraw cash as per the farmer's requirements.

### **SCOPE OF SCHEME**

At the time of launch, the KCC Scheme worked towards helping the farmers to meet their production related expenses. However, later the scope got expanded and now farmers can use this scheme to raise funds for other allied expenses as well like expenses related to crop production, Working Capital needs, expenses towards maintenance of farming assets and other allied activities such as dairy animals, marketing related expenses.

### **ELIGIBILITY**

- All farmers-individuals/Joint borrowers who are owner cultivators.
- Tenant farmers, Oral lessees and Share Croppers etc.
- SHGs or Joint Liability Groups of farmers including tenant farmers, share croppers etc.,
- The criteria for eligible beneficiaries under KCC for Animal Husbandry and Fisheries is as follows

### **QUANTUM OF LOAN**

A host of factors are taken into account by the lending institutions while deciding the quantum of loan. These include the crop being cultivated, size or area of cultivation, farmer's earning ability and previous credit history. Quantum of loan for 1st year will be assessed on the basis of Cost of cultivation, post-harvest expenses and farm maintenance cost. For subsequent years, loan will be sanctioned on the basis of increase in scale of finance.

## **COLLATERAL SECURITY**

The broad guidelines regarding the collateral security for Kisan Credit Card Loans are decided by RBI and communicated from time to time. However, the financial institutions participating in the Kisan Credit Card Scheme are allowed to make variations provided they comply with the overall guidelines. Hence, they differ in their collateral security requirements. Collateral security is waived for KCC limit upto Rs. 1 lac.

## **RATE OF INTEREST**

Kisan Credit Card loan interest rate is at the discretion of the bank / financial institution. Though the same is monitored by the RBI and is usually in line with the Base Rate. Apart from the interest on the loan, there are some other additional charges involved in the Scheme. These include processing fees, insurance premium, etc. However, in many cases the lending institutions waive off these charges for the interest of the farmers.

## **REPAYMENT TENURE**

The repayment tenure of the Kisan Credit Card Loan is determined by the bank or the financial institution offering the credit. It takes place only after harvest. For short term credit, they usually take into account the anticipated harvesting and marketing period of the crops. Long term loans are generally repayable within five years of disbursement. The repayment period may be fixed as per the anticipated harvesting and marketing period for the crops for which a loan has been granted

## **INSTITUTIONS OFFERING KISAN CREDIT CARD LOAN**

Kisan Credit Card is offered by many public sector banks, co-operative banks and rural banks in India. Some of these are State Bank of India (SBI), Bank of India (BOI), Industrial Development Bank of India (IDBI), NABARD, National Payments Corporation of India (NPCI).

## **ADVANTAGES TO FARMERS**

- Simplifies disbursement procedures
- Removes rigidity regarding cash and kind
- No need to apply for a loan for every crop

- Assured availability of credit at any time enabling reduced interest burden for the farmer.
  - Helps buy seeds, fertilizers at farmer's convenience and choice
  - Helps buy on cash-avail discount from dealers
  - Credit facility for 3 years – no need for seasonal appraisal
  - Maximum credit limit based on agriculture income
  - Any number of withdrawals subject to credit limit
  - Repayment only after harvest
  - Rate of interest as applicable to agriculture advance
  - Security, margin and documentation norms as applicable to agricultural advance
  - Access to adequate and timely credit to farmers
  - Full year's credit requirement of the borrower taken care of. Minimum paper work and simplification of documentation for withdraw of funds from the bank.
  - Flexibility to draw cash and buy inputs.
  - Assured availability of credit at any time enabling reduced interest burden for the farmer.
- Flexibility of drawals from a branch other than the issuing branch at the discretion of the bank.

**PROGRESS OF KCC SCHEME**

**I: COMMERCIAL BANKS**

Sr. No.	State/UT	Commercial Banks			
		Number of Operative KCCs(in '000)		Amount outstanding under Operative KCCs(in ₹ billion)	
		2017	2018	2017	2018
	<b>Northern Region</b>	<b>4,024</b>	<b>4,108</b>	<b>1,343.7</b>	<b>1,387.8</b>
1	Haryana	659	677	268.4	281.4
2	Himachal Pradesh	209	213	34.7	36.4
3	Jammu & Kashmir	275	300	35.0	38.3
4	New Delhi	5	3	2.8	2.6
5	Punjab	863	872	492.1	488.1
6	Rajasthan	2,004	2,040	505.3	538.2
7	Chandigarh	10	4	5.4	2.7
	<b>North-Eastern Region</b>	<b>672</b>	<b>785</b>	<b>41.5</b>	<b>50.9</b>
8	Assam	497	583	31.3	38.5
9	Arunachal Pradesh	8	9	0.5	0.6
10	Meghalaya	57	54	3.1	3.8
11	Mizoram	12	11	0.8	0.8
12	Manipur	15	16	1.1	1.2
13	Nagaland	33	28	1.6	1.4
14	Tripura	46	79	2.6	4.3

15	Sikkim	5	5	0.5	0.3
	<b>Western Region</b>	<b>3,522</b>	<b>3,298</b>	<b>649.1</b>	<b>628.8</b>
16	Gujarat	1,071	1,086	266.7	295.8
17	Maharashtra	2,443	2,204	380.4	331.0
18	Goa	7	7	1.8	1.8
19	Daman and Diu	-	-	0.1	0.1
20	Dadra and Nagar Haveli	1	1	0.2	0.1
	<b>Central Region</b>	<b>6,719</b>	<b>6,333</b>	<b>1,099.5</b>	<b>1,067.4</b>
21	Uttar Pradesh	4,469	4,226	648.6	592.1
22	Uttarakhand	389	236	64.2	47.6
23	Madhya Pradesh	1,642	1,643	344.1	381.8
24	Chhattisgarh	219	228	42.6	45.8
	<b>Southern Region</b>	<b>4,917</b>	<b>5,424</b>	<b>979.0</b>	<b>941.1</b>
25	Karnataka	947	893	287.8	241.2
26	Kerala	311	310	119.8	121.2
27	Andhra Pradesh	1,777	1,875	235.9	242.9
28	Tamil Nadu	507	544	134.3	157.3
29	Telangana	1,359	1,796	195.1	177.1
30	Lakshdweep	-	-	-	-
31	Puducherry	16	4	5.9	1.5
	<b>Eastern Region</b>	<b>3,514</b>	<b>3,581</b>	<b>237.2</b>	<b>255.2</b>
32	Odisha	604	655	45.0	48.5
33	West Bengal	824	1,004	53.4	73.6
34	Andaman and Nicobar Island	-	-	-	-
35	Bihar	1,444	1,322	111.2	104.8
36	Jharkhand	642	600	27.6	28.2
	<b>Total</b>	<b>23,368</b>	<b>23,528</b>	<b>4,350.0</b>	<b>4,331.1</b>

It can be concluded from the above data that central region tops the list of states with no of operative kisan credit cards and the total amount outstanding under kisan credit cards. From the northern region, Punjab has issued the highest no of kisan credit cards. In North east, Assam tops the list whereas in western region the tag is awarded to Maharashtra. Uttar Pradesh has highest users of KCC in central region with Andhra Pradesh being first from southern region and Bihar from eastern region. It can also be observed that there is only a meagre increase of 0.684% in the number of operative KCCs from the year 2017 to the year 2018. However, there has been a decrease of 0.434% in the amount outstanding under operative KCC from the year 2017 to the year 2018.

**II: COOPERATIVE BANKS**

Sr. No.	State/UT	Co-operative Banks			
		Number of Operative KCCs(in '000)		Amount outstanding under Operative KCCs(in billion)	
		2017	2018	2017	2018
	<b>Northern Region</b>	<b>5,749</b>	<b>5,708</b>	<b>269.7</b>	<b>296.7</b>
1	Haryana	1,233	1,196	87.1	93.4
2	Himachal Pradesh	88	92	11.9	13.3
3	Jammu & Kashmir	10	11	0.4	0.6
4	New Delhi	1	1	0.1	0.1
5	Punjab	988	953	72.3	71.7
6	Rajasthan	3,429	3,455	97.9	117.6
7	Chandigarh	-	-	-	-
	<b>North-Eastern Region</b>	<b>106</b>	<b>113</b>	<b>1.2</b>	<b>1.3</b>
8	Assam	2	3	0.1	0.1
9	Arunachal Pradesh	1	1	-	-
10	Meghalaya	16	17	0.3	0.3
11	Mizoram	1	1	NA	0.1
12	Manipur	-	-	-	-
13	Nagaland	4	4	0.1	0.1
14	Tripura	73	79	0.6	0.6
15	Sikkim	8	8	0.1	0.1
	<b>Western Region</b>	<b>5,622</b>	<b>4,773</b>	<b>259.9</b>	<b>277.9</b>
16	Gujarat	1,415	1,067	78.2	85.6
17	Maharashtra	4,205	3,704	181.5	192.1
18	Goa	2	2	0.2	0.2
19	Daman and Diu	-	-	-	-
20	Dadra and Nagar Haveli	-	-	-	-
	<b>Central Region</b>	<b>11,632</b>	<b>11,501</b>	<b>201.5</b>	<b>231.8</b>
21	Uttar Pradesh	4,431	4,468	58.3	56.7
22	Uttarakhand	350	269	9.6	9.7
23	Madhya Pradesh	5,404	5,774	122.0	149.7
24	Chhattisgarh	1,447	990	11.6	15.7
	<b>Southern Region</b>	<b>7,211</b>	<b>6,821</b>	<b>273.7</b>	<b>307.0</b>
25	Karnataka	2,493	2,447	107.3	116.7
26	Kerala	814	629	28.3	29.9



27	Andhra Pradesh	1,570	1,545	68.6	73.3
28	Tamil Nadu	1,311	1,364	42.3	56.8
29	Telangana	1,017	830	27.0	30.3
30	Lakshdweep	-	-	-	-
31	Puducherry	6	6	-	-
	<b>Eastern Region</b>	<b>5,563</b>	<b>4,579</b>	<b>116.1</b>	<b>130.1</b>
32	Odisha	3,537	2,873	77.7	90.9
33	West Bengal	1,857	1,540	34.8	35.5
34	Andaman and Nicobar Island	6	5	0.1	0.1
35	Bihar	136	141	3.2	3.3
36	Jharkhand	26	20	0.3	0.3
	<b>Total</b>	<b>35,883</b>	<b>33,495</b>	<b>1,122.0</b>	<b>1,244.8</b>

Above data represents that central region tops the list of states with no of operative kisan credit cards and the total amount outstanding under kisan credit cards in case of Co-operative banks also. From the northern region, Rajasthan has issued the highest no of kisan credit cards. In North east, Tripura tops the list whereas in western region the tag is awarded to Maharashtra. Madhya Pradesh has highest users of KCC in central region with Karnataka being first from southern region and Odisha from eastern region. It can also be observed that there is a decrease of 1.081% in the number of operative KCCs from the year 2017 to the year 2018. Contrary to it, there has been an increase of 10.944% in the amount outstanding under operative KCC from the year 2017 to the year 2018.

### III: REGIONAL RURAL BANKS

Sr. No.	State/UT	Regional Rural Banks			
		Number of Operative KCCs(in '000)		Amount outstanding under Operative KCCs(in billion)	
		2017	2018	2017	2018
	<b>Northern Region</b>	<b>1,040</b>	<b>1,108</b>	<b>193.1</b>	<b>246.1</b>
1	Haryana	225	241	34.6	61.6
2	Himachal Pradesh	39	41	4.6	5.2
3	Jammu & Kashmir	62	65	5.3	6.1
4	New Delhi	-	-	-	-
5	Punjab	130	138	38.7	45.9
6	Rajasthan	585	623	109.8	127.3
7	Chandigarh	-	-	-	-
	<b>North-Eastern Region</b>	<b>434</b>	<b>441</b>	<b>13.6</b>	<b>14.1</b>

8	Assam	289	284	9.9	10.4
9	Arunachal Pradesh	3	3	0.1	0.1
10	Meghalaya	19	19	0.9	1.0
11	Mizoram	7	13	0.9	0.7
12	Manipur	7	8	0.2	0.3
13	Nagaland	1	1	-	-
14	Tripura	107	113	1.5	1.6
15	Sikkim	-	-	-	-
	<b>Western Region</b>	<b>643</b>	<b>653</b>	<b>69.8</b>	<b>67.1</b>
16	Gujarat	284	305	36.0	42.9
17	Maharashtra	359	348	33.8	24.2
18	Goa	-	-	-	-
19	Daman and Diu	-	-	-	-
20	Dadra and Nagar Haveli	-	-	-	-
	<b>Central Region</b>	<b>3,876</b>	<b>3,993</b>	<b>354.1</b>	<b>379.2</b>
21	Uttar Pradesh	3,136	3,266	277.2	296.8
22	Uttarakhand	49	47	3.0	3.0
23	Madhya Pradesh	514	501	63.7	69.1
24	Chhattisgarh	178	179	10.2	10.3
	<b>Southern Region</b>	<b>3,144</b>	<b>3,355</b>	<b>250.3</b>	<b>295.1</b>
25	Karnataka	738	719	85.3	91.3
26	Kerala	150	149	12.0	12.7
27	Andhra Pradesh	767	843	65.7	81.3
28	Tamil Nadu	303	432	18.2	27.6
29	Telangana	1,183	1,211	68.9	82.1
30	Lakshdweep	-	-	-	-
31	Puducherry	1	1	0.1	0.1
	<b>Eastern Region</b>	<b>3,134</b>	<b>2,643</b>	<b>143.4</b>	<b>132.0</b>
32	Odisha	596	581	23.1	24.7
33	West Bengal	511	332	23.6	13.6
34	Andaman and Nicobar Island	-	-	-	-
35	Bihar	1,667	1,361	84.4	79.6
36	Jharkhand	361	369	12.3	14.1
	<b>Total</b>	<b>12,271</b>	<b>12,193</b>	<b>1,024.2</b>	<b>1,133.6</b>

Data given above exhibits that central region tops the list of states with no of operative kisan credit cards and the total amount outstanding under kisan credit cards in case of Co-operative banks also. From the northern region, Rajasthan has issued the highest no of kisan credit cards. In North east, Assam tops the list whereas in western region the tag is awarded to Maharashtra. Uttar Pradesh has highest users of KCC in central region with

Telangana being first from southern region and Bihar from eastern region. It can also be observed that there is a decrease of 0.635% in the number of operative KCCs from the year 2017 to the year 2018. Contrary to it, there has been an increase of 10.681% in the amount outstanding under operative KCC from the year 2017 to the year 2018.

### **CONCLUSION**

The above discussion can be briefed with the final note that Kisan Credit Card scheme has proved to be successful measure for financial inclusion in the Indian economy. It has been observed that commercial banks have shown a rise in the cards issued whereas the amount outstanding under operative KCCs has decreased. Contrary to the trend being followed by commercial banks, both cooperative and regional rural banks have shown a decrease in the number of operative KCCs whereas the amount outstanding under operative KCCs has increased.

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