

RESEARCH ARTICLE

Reasons for poor performance of disbursement of Kisan Credit Card and recovery of loan under the scheme in Assam—A qualitative study

A. Thakur¹ and U. Barman^{2*}

¹Agriculture Officer, Punjab National Bank, Jorhat Branch, Assam

²Assoc. Prof., Dept. of Extension education, FA, Assam Agricultural University, Jorhat, Assam, India
adreetta09@gmail.com; barman.utpal@gmail.com; +91 9435090740

Abstract

More than 60% of our people depend upon agriculture for their livelihood. Agriculture at present has undergone a significant shift from the subsistence level of production to market oriented production. Institutional credit has played a very important role in the development of the agricultural sector. Credit played an important role by facilitating technological up gradation and commercialisation of agriculture. Recognising the limitations of multi-credit product and multi-agency approach, a stronger view emerged among policy makers on the need for an 'integrated credit' product for the accelerating sector/area/activity specific development process. This resulted in the introduction of a new credit product called 'Kisan Credit Card' (KCC) in 1998-99. The Kisan Credit Card scheme was a step towards facilitating the access to short-term credit for the borrowers from the formal financial institutions. This scheme has facilitated the availability of credit in time and has simplified the procedure for availing loan from banks to a large extent. Though KCC is a good source of credit instruments for farmers, but its disbursement was not encouraging in Assam. Likewise the recoveries of loan provided through the KCC were also not effective. Therefore, a study was conducted to know the reason about these things. Opinion of both farmers and bank officials were collected through semi-structured interview method. From the study, it was found that there were 11 major reasons for poor disbursement of KCC. Likewise there were 12 major reasons found in case of poor recovery of loans. The study further indicated that both farmers and banks were responsible for these situations and need some policy changes for improving the situation.

Keywords: Kisan credit card, multi-credit product, semi-structured interview, policy changes.

Introduction

Agriculture has been the mainstay of our economy and more than 60% of our people depend upon agriculture for their livelihood even though the contribution of agriculture to our Gross Domestic Product (GDP) is less than 27%. Nonetheless, the importance of agriculture cannot be underestimated for years to come (Kamble, 2009). Agriculture at present has undergone a significant shift from the subsistence level of production to market oriented production. The food security is reflected in the abundant buffer stocks of grains build up out of the surplus production. The shifting of cropping pattern from traditional crops to high-value crops and new markets is the result of diversification and commercialization in agriculture.

Institutional credit has played a very important role in the development of the agricultural sector. It showed all signs of resilience to natural shocks like droughts and famines. In fact, credit acted as a means to provide control over resources to enable the farmers to acquire the required capital for increasing agricultural production. It enabled the farmer to go for short-term credit for purchase of inputs and other services and the long-term credit for investment purposes.

Thus, credit played an important role by facilitating technological up gradation and commercialization of agriculture. The major success of green revolution in Indian agriculture to a large extent is the impact of institutional credit support to the agricultural sector in terms of expansion in inputs like fertilizers, irrigation, private capital formation, etc. Recognizing the limitations of multi-credit product and multi agency approach, a stronger view emerged among policy makers, particularly since the early nineties, on the need for an 'integrated credit' product for the accelerating sector/area/activity specific development process. The introduction of a new credit product called 'Kisan Credit Card' (KCC) in 1998-99 with three different sub-limits viz. production, asset maintenance and consumption needs are a step in this direction. This brings integrated into the multi-credit product system by offering farm entrepreneurs a single line of credit through a single window for multiple purposes. These include the acquisition of farm assets, maintenance thereof and meeting families intervening consumption needs. The Kisan Credit Card scheme was a step towards facilitating the access to short-term credit for the borrowers from the formal financial institutions.

The scheme was conceived as a uniform credit delivery mechanism, which aimed at provision of adequate and timely supply of short-term credit to the farmers to meet their crop production requirements. The KCC instrument would allow farmers to purchase agriculture inputs such as seeds, fertilizers, pesticides and also allow them to withdraw some cash for meeting their other crop production related requirements (Samantara, 2010). This scheme has facilitated the availability of credit in time and has simplified the procedure for availing loan from banks to a large extent (Nahatkar *et al.*, 2002). The timely availability of crop loan has helped the farmers realize higher returns from farming (Singh and Sekhon, 2005). Most of the farmers are aware about the benefits of the KCC scheme irrespective of their literacy level (Vedini and Durga, 2007). The factors like age, gender, household size, farm size, education level, etc., positively influence the decision of adoption of KCCs (Kumar *et al.*, 2007).

According to NABARD (Anonymous, 2013) the major features of KCC are:

1. Eligible farmers to be provided with a Kisan Credit Card and a pass book or card-cum-pass book.
2. Revolving cash credit facility involving any number of drawing and repayments within the limit.
3. Limit to be fixed on the basis of operational land holding, cropping pattern and scale of finance.
4. Entire production credit needs for a full year plus ancillary activities related to crop production to be considered while fixing the limit.
5. Sub-limits to cover short term, medium term as well as term credit are fixed at the discretion of the banks.
6. Card valid for up to 5 years subject to annual review. As an incentive for good performance, credit limits could be enhanced to take care of increase in costs, change in cropping pattern, etc.
7. Each drawls to be repaid within a maximum period of 12 months.
8. Conversion/ re-schedulement of loans also permissible in case of damage to crops due to natural calamities.
9. Crop loans disbursed under the KCC scheme for notifying crops are covered under Rashtriya Krishi Bima Yojna (National Agriculture Insurance Scheme), a crop insurance scheme introduced at the behest of Government of India to protect the interest of the farmer against loss of crop yield caused by natural calamities, pest attacks etc.

The Internal Circular of Punjab National Bank of 2013 also mentions that:

10. No collateral security for loan up to 1 lakh.
11. No margin money required for loans up to 1 lakh.
12. Tenants/share croppers/landless labourers/lessee or oral lessee farmers may also be financed up to the amount of 50,000 under certain terms and conditions of the bank.

13. A withdrawal through slips/cheques accompanied by a card and passbook and even through ATM facility is also available in some Commercial Banks.

The scheme has only 7% rate of interest, with a subvention of 3% by Govt. of India to every KCC beneficiary. Hence, on regular repayment, the farmer has to bear an interest rate of 4% only which is lowest of all other credit facilities. In India, as per UPA Government report 2011-12 (Anonymous, 2012), the agriculture credit target was 4, 75,000 crore and the achievement up to 29th February, 2012 is 4, 40,714 crore. The total farm loan accounts financed are 549.60 lakh out of which 61% are for small and marginal farmers. The disbursement target for 2012-13 is about 5, 75,000 crore. Nearly 11 crore Kisan Credit Cards have been issued to farmers. The Kisan Credit Card is being enabled to be used as an ATM card at ATM/PoS terminals.

Agriculture is the mainstay of life for the majority of population in Assam on agriculture for their livelihood. Since independence, significant strides have been made in agricultural production in the State. Assam, the gateway to North East, covers a total geographical area of 78,550 Sq Km spreading over 29 districts. As per census 2011, out of the total population of Assam state, around 85.92% live in rural areas. Agriculture and its allied activities played an important role in the socio-economic development of the State of Assam as this sector is the major contributor to the State economy as well as providing livelihood for a significant proportion of the population of the State. Agriculture and horticulture are the main source of livelihood of the rural population and thus agriculture is the mainstay of the state's economy. About 84% of the farmers of Assam belong to small and marginal groups. The average operational holding is also reducing day by day. In 1970-71 it was 1.47 ha which was reduced to 1.11 ha in 2005-06 (Economic survey, 2011-12).

The state of Assam experiences plenty of rainfall and possesses a fertile land which is extremely advantageous for cultivation. Therefore, by the help of bank credit through KCC, the farmers of Assam may reach a very high level of farming by proper utilization of the credit. But, as per the NABARD study conducted on Kisan Credit Card (Samantara, 2010) it was reported that the progress of implementing the KCC scheme was tardy in the states of Goa, Himachal Pradesh, Jammu and Kashmir, Sikkim and North Eastern states of India. Keeping this in view, an attempt was made to find out the reason behind this poor implementation of KCC scheme. Since disbursement as well as recovery is the main factor of any credit scheme, therefore, the attempt was focused mainly to point out the reasons behind poor disbursement and recovery of the KCC loans in the state of Assam.

Materials and methods

Study area and sample population: The study was conducted by selecting three districts of Assam namely Jorhat, Sibsagar and Golaghat. From each district, 25 KCC beneficiary farmers and 25 non-beneficiary farmers were randomly selected. Five Bank Officials were also selected for the present study from each district. In total, 150 farmers and 15 Bank officials were selected as respondents for the study.

Study parameters: In this study, opinions of farmers and bank officials on low disbursement of KCC and its loan recovery were evaluated. A semi-structured, open ended interview schedule was prepared to qualitatively find out the farmers' as well as Bank officials' opinion behind the poor disbursement and recovery of loans of the scheme. In some cases discussion with farmers in the group were also followed. After that same type of opinions were grouped together.

Statistical analysis: Since the data were analyzed qualitatively so no statistical analysis was made. Only similar types of opinions were grouped together for final discussion.

Results and discussion

By the interview conducted with the selected farmers as well as Bank Officials, broadly following reasons were found out.

A. Reasons behind poor disbursement of KCC

1. *Lengthy paper work:* Most of the farmers find it difficult to work with lengthy paper work. Because they are not acquainted with paper works in day to day activities.
2. *The problem of land holding:* Fragmented land holding is a major drawback in the farming scenario of Assam. Most of the farmers who apply for KCC loans from the bank are either tenant farmer or sharecropper or lessee. They cannot produce relevant land documents for availing a higher loan amount. Since every bank has certain stipulated limit of financing to such farmers, therefore, the loan does not meet their real credit need.
3. *Poor recovery of loan:* It is a major reason for poor disbursement of KCC loan. Because of its poor recovery, many banks avoid to disburse fresh KCC loans.
4. *Moneylenders:* Moneylenders play a crucial role in meeting the credit needs of farmers in village situation. To avoid the paper works and formalities of banks and to get the credit at the time of need, many farmers in the rural areas depend upon the money lenders irrespective of their high interest charges.
5. *Lack of knowledge and awareness:* Many of the farmers lack knowledge and they are not aware of the facilities as well as the benefit of the KCC scheme. Many are even not aware of the repayment procedure of the scheme.

6. *Difficulty in opening a bank account:* Many banks ask for opening bank account in their branches prior to disbursing KCC loans to farmers. Farmers are finding it difficult to go through the formalities in opening the bank account because nowadays KYC (Know Your Customer) is essential for opening an account.
7. *Location difficulty:* Location difficulty is also a problem for low disbursement of KCC loans. Many villages are not getting any bank branch in nearby area. Because of which, the villagers of such villages are neglected from availing the facility of KCC.
8. *Loan not available at the time:* Because of the bank formalities, it was reported by most of the respondents that many a times, KCC loans are not released on time. They did not get the loan at the time of their cropping season. Due to this factor, many farmers do not want to rely on the bank.
9. *Fear of being a defaulter:* Many farmers especially of a higher age group have a fear to take a loan from a bank. For them, loan is a burden for a lifetime. If they are not able to repay it in time, their family will be charged for it along with him and they feel that the bank will take them to court and sell their property.
10. *Worst experience of peer groups:* Farmers from the same village may have a bad experience while applying for KCC loan. Therefore, they ask their neighbours and peers about their experience which also sometimes reduces the beneficiary. Again due to the presence of large numbers of defaulters bank official are not interested to give loan even to a genuine farmer.
11. *Lack of motivation from bank official:* The bank official sometimes lacks motivation to work with farmers. Because they have to visit rural areas frequently for that purpose where as other officers are doing their jobs in the office itself.
12. *Insufficient credit limit:* Sometimes, the loan amount does not meet the needs of the farmers for which they do not want to take the loan.

From the above findings it is clear that there are some bank procedures which are still complicated for farmers. Again some farmers had bad or wrong experiences toward KCC. In some cases even bank were also not encouraging farmers to take the advantages of KCC. Poor extension support, small land holding etc., were also some other reason for poor disbursement of KCC in Assam.

B. Reasons for poor recovery

It was reported by many bank officials that the NPA (Non-performing Assets) Accounts of the majority of bank branches are from KCC holders. The low recovery of KCC loans creates problems to banks by creating such NPA accounts and also by lowering their business.

By the interview conducted with the selected semi-structured schedule with farmers as well as bank officials, following reasons were found out as the reasons behind poor recovery:

1. *Commission agents:* Commission agents play the role of middleman between bank and borrowers. They charge for high commission for arranging the documents and procedures to reach the bank. The villagers, due to their low literacy, also depend upon them fully. After getting the loan, the loanee farmer gives an amount of the loan to the commission agent and likewise he starts to misuse the credit. At the time of repayment, the commission agents do not help them and hence they fail to repay the loan in time.
2. *Poor awareness:* Due to their poor literacy, the farmers are not aware of how to repay, when to repay and how much to repay to the bank. They fail to make any plan of repayment and hence they become defaulters.
3. *Lack of follow up by bank official:* Once the loan is disbursed, the bank official hardly follows up with the farmers. The loanee farmer also hardly visits to the bank branch after withdrawing his loan amount. Therefore, a gap is created between the bank official and the borrower due to which the recovery becomes irregular.
4. *Bad experience in bank during disbursement of the loan:* A borrower has to undergo certain formalities in the bank prior to taking the KCC loan. He has to do certain paper works. Because of their low literacy, these works become troublesome to them. They do not like to visit the bank again after getting the loans in the fear of such paper works and hence they become unaware of repaying their overdue.
5. *Lack of awareness:* It is one of the important causes of poor implementation of the KCC scheme. Farmers are not aware of the repayment schedule of their own loan.
6. *Natural calamity:* Natural calamity and disaster plays a crucial role in poor recovery of KCC loans in Assam. Every year, flood/drought etc. damages the crop fields of many farmers. They lost their crops at the time of harvest. Loanee farmers fail to repay their dues in such conditions.
7. *Misutilization of loan:* It was reported by many bank officials as well as non beneficiary farmers, that many KCC borrowers do not utilize their loan in productive purpose and at the time of repayment, they fail to arrange for money to recover their loans.
8. *Misconception:* Villagers have certain misconception in their mind regarding waiving of KCC loans. In some states including Assam, KCC loans were once waived and all the burdens of farmers were becoming free. They still think that these KCC loans are free disbursement from the Government and they need not to repay it to the bank. This is also a major problem of poor repayment.

9. *Double financing:* Sometimes, a single farmer approaches many bank branches for a KCC loan by producing different land documents. Sometimes, even the bankers fail to identify such persons and they enjoy the finance from multiple banks. But, at the time of repayment, it becomes impossible for them to repay the loan to each and every bank branch from where they have taken the loans because such type of farmers generally use this loan for nonproductive purpose.

10. *Low repayment capacity:* Irrespective of their low repayment capacity, some farmers especially tenant or landless labourers approach bank for KCC loan. Due to the target fixed by the Government every year and because of the relaxations in KCC scheme, banks are bound to disburse loans to such farmers. But, in return, their recovery becomes irregular or even negligible.

11. *Issuance of debit cards:* A Now-a-day, bank is giving debit card to all the account holders. Even the KCC holders are also availing this facility. KCC loanee farmers carry on their transactions through ATMs. Because of this, they are in less contact with the bank officials and hence they become unaware of their repayment of the loan.

From the above findings it is clear that lack of awareness of farmers on utilization of the loan and its recovery, casual approach of follow-up of banks to examine whether the loan were utilized properly or not, the involvement of middleman and weak Government policy etc., were some of the major reasons for poor recovery of loans.

Conclusion

Nowadays, many banks are forming some farmers' club in collaboration with NABARD. The main role of these farmers' clubs is to mobilize bank business from the rural areas. A group of 10 progressive farmers is selected from some selected villages under the bank's service area. These Farmers' Clubs are a good medium to reach to the customers. With their help, good farmers may be selected from villages and they may be disbursed KCC loans. The farmers club may take active part in bank's recovery. The bank should also train the members of Farmers Club regarding KCC. The government also appointed farmers' friends under Rastriya Krishi Vikash Yojana (RKVY) in every village. One farmers' friend generally provides services to farmers of two villages. The bank may also take the help of those people to implement their KCC scheme. Department of Agriculture, Assam also reactivates the Field Management Committee (FMC) for the benefits of farmers. These are the committee forms by farmers by merging their fields. Since Agriculture Department will now provide the support through this FMC instead of individual farmers so the bank should also converge their activity with them.

A group approach will create a peer group pressure to the defaulter and ultimately such type of farmers will repay the loan. The time is ripe now for bank to work in a holistic way instead of individual approach. Since after the extension reforms Government also adopted group approach of extension, therefore, bank officers should be trained on the subject like group facilitation so that they can handle the group productively for implementing KCC scheme.

References

1. Anonymous, 2013. Kisan Credit Card. Retrieved from <http://www.nabard.org/development&promotional/kisancr editcard.asp>, on 13th February, 2013.
2. Anonymous. 2012. Farmers' welfare: Government of the united progressive alliance: Report to the people 2011-2012. p.27.
3. Kamble, B. 2009. Role of Kisan Credit Cards in the benefit of small farmers, *Shodh, Shamiksha aur Mulyankan. Int. Res. J.* 7(2): 201-204.
4. Kumar, A., Singh, D.K. and Kumar, P. 2007. Performance of rural credit and factors affecting the choice of credit sources. *Ind. J. Agri. Econ.* 62(3): 297-313.
5. Nahatkar, S.B., Mishra, P.K., Raghuwanshi, N.K. and Beohar, B.B. 2002. An evaluation of Kisan Credit Card scheme: A case study of Patan tehsil of Jabalpur district of Madhya Pradesh. *Ind. J. Agri. Econ.* 57(3): 578.
6. Samantara, S. 2010. Kisan Credit Card: A case study: Occasional paper 52, Department of economic analysis and research, NABARD, Mumbai.
7. Singh, H. and Sekhon, M.K. 2005. Cash in benefits of the Kisan Credit Card Scheme: Onus is upon the farmer. *Ind. J. Agri. Econ.* 60(3): 319-334.
8. Vedini, K.H. and Durga, P.K. 2007. Evaluation of Kisan Credit Card Scheme in the state of Andhra Pradesh. *Ind. J. Agri. Econ.* 61(1): 365.