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Application of ICTs to Achieve Inclusion of all Farmers under Kisan Credit Cards in Indian Agriculture

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Abstract

Institutional Credit is an especially important input in Indian Agriculture. Kisan Credit Cards (KCC) have emerged as the instrument of choice to advance formal credit to Indian farmers. Government of India has undertaken 2 campaigns since February 2019 to saturate the number of KCCs. We analysed these campaigns and find that the net effect of these campaigns is absent altogether on the ground with respect to the number of KCCs. We suggest an alternative approach to include all farmers, particularly the landless cultivators (tenants, sharecroppers, oral lessees etc.) within the ambit of KCC so that saturation is achieved in a true and inclusive sense. The exercise can also yield robust estimates on the extent and terms of tenancy, which can be used to further fine-tune agriculture policy in India.

1. Introduction

Institutional credit to agriculture is an important input in the scheme of things in Indian Agriculture. There is an attempt on the part of the Government of India to ensure that all farmers in the country have access to institutional credit. To ensure access of institutional credit to Indian farmers, the main policy instrument of the Government is the priority sector lending (PSL) norms for the agriculture sector under which the banks are required to achieve overall agriculture target of 18 per cent and a sub-target of 8 per cent of their(banks') adjusted net bank credit (i.e., total loans) for small and marginal farmers. The eligible activities include farm credit, agri-infrastructure and ancillary activities. Under the PSL agriculture loans, short term crop loans are provided at an effective interest rate of 4% per annum, provided the borrower repays on time. The Kisan Credit Card (KCC), introduced in 1998, has emerged as a preferred instrument for disbursing crop loans and the crop loans outstanding under PSL shows that almost two-thirds of them as on March 31, 2018 are through KCC mode[1]. In fact, recently the RBI advised[2] banks to ensure that all Short Term Crop Loans including agriculture gold loans eligible for Interest Subvention (IS) and Prompt Repayment Incentive (PRI) benefit (i.e., effective interest rate of 4% p.a.) are extended only through KCC and the existing Short Term Crop Loans which are not extended through KCC be converted to KCC loans by June 30, 2020. Further, since February 2019, to bring more number of farmers under formal credit arrangements, there have been 2 special drives by the Government of India in campaign mode to achieve saturation in the Kisan Credit Cards. As part of these campaigns[3] 15 million new farmers were sought to be brought within the ambit of KCC by March, 2020, but our analysis reveals that, unfortunately, the net effect of these campaigns has been absent on the ground. Given that the Government has, in May 2020, further stated[4] that 25 million new KCC accounts are being targeted to disburse Rs 2 Trillion as Agriculture loans, the process adopted till now would not yield the desired success. Hence, this analysis is extremely relevant for the government to reach anywhere near this 25 million new KCC target. Hence, we suggest, in this paper, an approach which can achieve inclusion of all farmers, who are presently out of the ambit of institutional credit, via Kisan Credit Cards.

[1] https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=942

[2] https://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=11851

[3] https://pib.gov.in/PressReleseDetail.aspx?PRID=1574348

[4] https://pib.gov.in/PressReleseDetail.aspx?PRID=1574348

2. Campaigns to saturate the number of KCCs

2.1 As part of the first campaign to saturate KCCs, in February 2019, the Government of India provided a clear guideline to all public and private sector banks and NABARD in this regard vide their letter[5] on 4th February, 2019. Accordingly, all charges levied by the banks like processing, documentation, inspection, ledger folio charges as well as all other service charges for loans under KCC/ crop loans were waived. In the same government order, it was suggested that all the stakeholders organise camps at the village/branch level, a new simplified common application form distributed and the KCC had to be issued within 2 weeks of receipt of the completed application form. As per the government, in February 2019, the total active KCCs in the country were 69 million. Along with the above, Government announced the facility of extension of Kisan Credit Card scheme (KCC) to Animal Husbandry and Fisheries farmers with the benefit of only 4% p.a. interest on timely repayment. Since the credit availed to KCC is eligible for interest subvention support of Govt. of India, the details of Aadhar Card Number of the applicants was also stipulated to be captured.

2.2 The KCC Scheme was also simplified and converted to include an ATM enabled RuPay debit card with facilities of one-time documentation, built-in cost escalation in the limit, any number of drawals within the limit. To enhance coverage of small and marginal farmers in the formal credit system, RBI raised the limit for collateral-free agriculture loans from Rs 100,000 to Rs 160,000. The requirement of 'no due' certificate was dispensed with, for small loans up to Rs 50,000 to small and marginal farmers, share-croppers and the like, requiring instead, only a self-declaration from the borrower. Further, to bring small, marginal, tenant farmers, oral lessees, etc. into the fold of institutional credit, the medium of Joint Liability Groups (JLGs) was to be actively promoted by banks.

2.3 We have seen above that, on a policy level, the government eased the possible bottlenecks to obtaining a KCC loan for the farmers/dairy farmers/fish farmers and set a target of 10 million KCCs to be achieved in the campaign; it should have been very easy for any farmer to avail a bank loan upto Rs 160,000 at only 4% interest per annum (effective rate for prompt repayment) for cultivation purposes, without any collateral, with some simple documentation considering such an outreach and push from the Indian federal government.

2.4 Exactly a year after the above saturation campaign, as per Government documents, the number of active Kisan Credit Card (KCC) accounts as on 31st January, 2020 was 67 million, a reduction of 2 million as against the target of adding 10 million new KCC accounts as part of the campaign.

[5] http://agricoop.nic.in/sites/default/files/letter_allstates.pdf

2.5 This led to the second initiative to achieve saturation in the number of KCC, particularly for the beneficiaries of the PM-KISAN scheme. February 2020[6] onwards, the government of India made KCC application in a common single page format and all PM-KISAN beneficiaries were declared eligible for KCC loans. As per a report of April 15, 2020, during the 15 day drive, which started on 1 February 2020, 8.3 million applications were received out of which only 1.826 million applications have been sanctioned for total loan amount of Rs. 178,000 million.

2.6 Thus, even after the easing of procedures listed above and efforts put into the 2 saturation campaigns , the total number of active KCCs has only reached 69 million in India, the number it started with before the campaigns. Moreover, as the interest subvention incentive can, effective July 2020, be claimed only through KCC, the number of KCC accounts should have increased due to this aspect as well. But it has not happened. So, it can be concluded that the net effect of the campaigns as on April 15,2020, is **absent** on the ground.

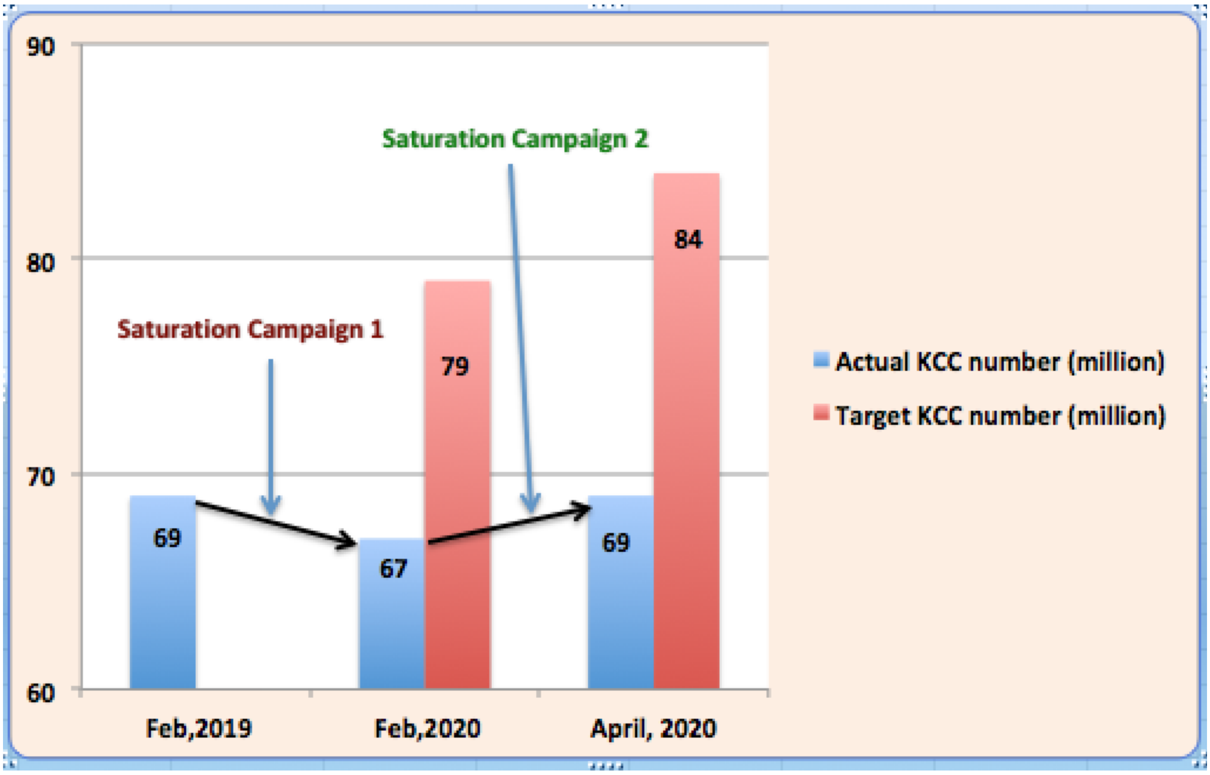

Chart 1 Data Source: Author's compilation from government documents

6 https://pib.gov.in/newsite/PrintRelease.aspx?relid=199229

Chart 1 showing the KCC numbers in India before and after the 2 saturation campaigns for KCC launched by the federal government in India in February 2019 and February 2020

3. Analysis of the KCC numbers after the Saturation Campaigns

3.1 There could be a number of reasons which we may attribute to the fact the well meaning and ambitious campaigns did not produce the desired increase in the number of KCCs. Some that seem most plausible are:

1. The widespread prevalence of oral tenancy, sharecropping, leasing, renting etc. in Indian agriculture, all of which exists without any documentation whatsoever, which makes it almost impossible for these landless farmers who cultivate others' lands to prove their vocation and access institutional credit particularly in the absence of land documentation.
2. We have reached saturation as far as the number of farmers who own as well as actively cultivate their land and have proper landholding documentation and title to access institutional credit from banks. In fact, landowning farmers, but those who don't not have proper land documentation of their farmlands in their name, may also find it difficult to produce the land documentation required for accessing KCC.
3. Deduplication as per Aadhaar number of beneficiaries in the combined database of all banks would have eliminated all but one account of beneficiaries having multiple KCC.
4. KCC beneficiaries may be accessing other schemes of the government that are better suited to their needs and are facilitated through the banks and may have needed to clear existing KCC loans to avail these schemes.

3.2 Considering reason numbers 3 and 4 in the above listed reasons first, it is difficult to arrive at any conclusion in the absence of data on the number of unique beneficiaries availing KCCs, number of deduplicated beneficiaries or number of beneficiaries who were accessing KCC but have now stopped KCC and availing some other scheme of the government. The Reserve Bank of India(RBI) and/or the Indian federal government are the only agencies which can collate this data and make it public to verify the extent of validity in reasons 3 and 4, if any. In any case, unless the KCC beneficiaries are moving out of agriculture in distress and surrendering the KCCs, the diversification of KCC holders to other economic activities should not be a problem.

3.3 As far as reason number 2 listed above, on the number of landowning farmers who are actively cultivating, the federal Agriculture ministry's empirical estimates[7] suggest that total number of PM-KISAN beneficiaries will saturate around 100 million[8]. PM-KISAN is the direct

[7] http://164.100.117.97/WriteReadData/userfiles/Press%20conference_24-Feb-2020.pdf

[8] In any case, the government has submitted to Parliament[8] that there is no centralised database of farmers and hence the total numbers of farmers in the country is not known and the

income support scheme of the Indian federal government under which all landowning farmers are given an annual direct cash transfer of Rs.6000 to assist with their cultivation. As far as the exclusions under PM-KISAN are concerned, only those presumed to be financially secure are excluded like income tax payers and professionals etc.

3.4 Some part of the remaining total 25-30 million farmers, who, by virtue of being beneficiaries of PM-KISAN are deemed to be eligible by default for KCC, could be accessing priority sector short term agriculture credit but not from the KCC mode (they can do it using gold as collateral, for instance, and still avail the interest subsidy). Some of them could be landowning farmers, but those who don't have proper land documentation of their farmlands as per the banks' norms, may also find it difficult to produce the land documentation required for accessing KCC. This is amply borne out by the fact which we have also pointed above that out of 8.3 million applications from beneficiaries of PM-KISAN during February-April, 2020 under the KCC saturation campaign, only 1.8 million have been sanctioned KCC. As PM-KISAN beneficiaries are vetted by the state government concerned, and only landholders are eligible to avail benefits, it is clear that the problem due to which their KCC applications were not sanctioned would perhaps most likely be in their land documentation. A large part of these 25-30 million not included in the KCC, however, could be those landowners who don't cultivate themselves and lease out their land for cultivation and hence don't require agriculture credit.

3.5 SBI Research[9] says that around 70% of the farm land is being cultivated by tenant farmers in India, and attribute the rise in rural indebtedness to this fact because not being the owner of land, the tenant is not entitled to getting any benefit.

3.6 NABARD reports[10] that the share of small and marginal farmer (SF/MFs) accounts in total number financed by all agencies grew from 60.07 per cent in 2015-16 to 72.06 per cent in 2016-17 while the number of SF/MF accounts grew from 5.40 crore to 7.71 crore during this period. Moreover, out of total agriculture loan amount disbursed, 50.14%, 49.93% and 49.90%

Agriculture Ministry has constituted a Task Force to develop a comprehensive Farmers' Database. Further news reports indicate that such a database could be launched in June 2020 initially with details of 60 million farmers.
(https://economictimes.indiatimes.com/news/economy/agriculture/indias-1st-aadhaar-authenticated-farmers-database-likely-in-june/articleshow/74291032.cms?from=mdr)

9 https://sbi.co.in/documents/13958/14472/060120-Ecowrap_20200106.pdf/b4841bcc-961b-78e4-2bf9-5feb5adb0104?t=1578311232270

10 https://www.nabard.org/auth/writereaddata/tender/1207192354SMFI%202018-19.pdf

have been disbursed to small and marginal farmers in 2016-17, 2017-18 and 2018-19(provisional figures) respectively. As on 31st March, 2019, cumulatively 5.08 million Joint Liability Groups (JLGs), whose main objective is to augment flow of credit to landless farmers cultivating land as tenant farmers, oral lessees or share croppers and small / marginal farmers as well as other poor individuals taking up farm activities, off-farm activities and non-farm activities, have been provided Rs.717,501 million in loans by banks across the country. To put this number in context, this cumulative Rs 717,501 million was only 2% of total agricultural credit[11] for the years 2016-17, 2017-18 and 2018-19. Even then, this number is inclusive of some landowning small and marginal farmers and not exclusively of tenants/sharecroppers and oral lessees. Thus, it is not difficult to understand the plight of tenant, sharecropper and such landless farmers who cultivate others' lands under various informal arrangements and are deprived of most of the benefits accruing to landowning farmers including access to subsidised institutional credit.

3.7 Thus far, it has been established that those who could access institutional credit in agriculture have done so and those who need it the most, have not been able to do so; it is also clear that with the present policy, the latter group does not stand any chance to access KCCs.

4. Steps for achieving Saturation of all farmers under KCC

4.1 For the Government to achieve its target of saturating institutional credit to all farmers in the country, the present process of Kisan Credit Card needs some further focus and support . The government has to offer credit guarantee to these excluded farmers for the banks to be able to sanction loans to them.

4.2 As a first step towards identifying the potential beneficiary farmers/households, government should use a Socio Economic Caste Census (SECC conducted in 2011) type exercise to enumerate all Households and capture data pertaining to details of access to institutional credit for cultivation and leasing in of agricultural land for cultivation. The focus should be on creating a database of cultivator households particularly with respect to leasing in of land under any sort of agreement with the landowner for cultivation purposes. After such an exercise, using the same checks and balances methodology[12] used to identify poor and deprived households through the SECC-2011, the list should be finalised.

[11] https://pib.gov.in/Pressreleaseshare.aspx?PRID=1576498

[12] SECC 2011 specified 14 automatic exclusion parameters and 5 automatic inclusion parameters and after these exclusion and inclusion criteria had been applied, the remaining households were ranked using 7 Deprivation Indicators. Households with the highest deprivation score had the highest priority for inclusion in the list of households below the poverty level. (https://secc.gov.in/faqReportlist)

Alternatively, the Government ask Gram Panchayats (GPs) to prepare list of all farmers (landed/landless/tenants/oral lessees/sharecroppers) who don't have access to institutional credit in an open Gram Sabha. The Gram Sabha proceedings can be video recorded for the sake of accountability and transparency. This enumeration should be on a household (HH) basis which captures the Aadhaar number details of all adults in the household. The list should immediately be uploaded on a portal with some minimal details about the household like mobile number, and details about the agricultural activities of the household like area and crop cultivated in the immediate past 2 kharif and 2 rabi seasons. To avoid conflicts between landowners and tenants and as a measure to enable a complete disclosure and to capture the full extent of tenancy, the name of the land owners should not be included in the exercise anywhere. The mode of tenancy (fixed rent/lease terms/sharecropping/any other) and irrigation status can be captured but not the name of owner of the land. Whether they (the tenant/sharecropper HH) wish to access a KCC loan for their agricultural activity should also be asked of the household and if yes, the basic Know Your Customer (KYC as required for opening of savings bank account under Jan Dhan Yojana) of the individual loan applicant from the HH should be filled. This exercise should yield a comprehensive list of the farmers who are landless and also indicate accurately how many of them are seekers of institutional agricultural credit. In other words, it would quantify the goal to be achieved for saturation of KCC. However, we also recognise that this method of identifying potential beneficiaries/ beneficiary HHs is expensive and would cost a decent sum of money and resources of all involved. At the same time, creation of such a master database is a one-time exercise and any expenditure incurred would be a decent investment to help the cultivators of India.

4.3 The next step should be the verification of the extent of financial inclusion and inclusion or exclusion of the listed household. This should be led by the RBI and completed in 2 stages.

4.4 In the first stage, the list of potential beneficiary HHs should be centrally run against all the banks' databases of loans and savings instruments. All adult members of the HH should be tallied for credit linkages and the individual applicants should also be tallied for savings linkages. Based on a pre-set cut-offs, all those households on the list who have accessed formal loans above the cut-off irrespective of the type of loan or have average annual savings above the cut-off for the individual applying, should be assumed have access to banking institutions and not in need of the credit guarantee and duly informed of the same. (The financial cut-off can be determined based on the eventual credit amount that is sought to be made available through a guaranteed process as we detail in the subsequent paragraphs.)

4.5 The deduplicated and truncated lists thus obtained should be the final list of individuals who are now eligible to receive the KCC. These lists should be equitably and randomly assigned to all bank branches serving a particular GP for issue of KCC to the eligible farmers. A bank branch receiving such a list has to check the list and within a pre-determined timeframe, indicate any objection to any individual on the list based only the 2 criteria listed aboveviz. the applicant HH already has a loan above the cutoff or the individual has an individual savings instrument amount above the cutoff which somehow could not be tallied in the centralised screening. In this timeframe, it should be the responsibility of the GP concerned to submit the list of KYC documents of the list of applicants found eligible (which they already have) to the bank for the loan sanction. By making the GP a party, mass processing at bank branches is ensured and branch level discretion is avoided. The sanction should be informed to the customers via sms text messages and the bank central processing centre should post/courier atm cum debit cards to the farmers as is the practice nowadays for dispatch of all atm cum debit cards. Individual bank employees should not be penalised for inclusion and advancing loans under this process and such transactions should have no scope to negatively impact their service record and no individual negative incentives for this process to take-off.

4.6 KCC, as already explained above, provides interest subvention of 5% (2% for banks and 3% for farmers) for short term crop loan of upto 3 lakh Rupees. If we consider the average crop loan amount for a small/marginal farmer as Rs 1 lakh (average amount sanctioned in saturation campaign is Rs 97481/farmer), 5% subvention on it (Rs 5000) and annual PM-KISAN direct payment amount of Rs 6000, government would be providing Rs 11000/- worth of cash benefit to a farmer annually. If Govt provides a guarantee of, even around 70-75% of this amount (approx Rs 8000) for a KCC micro loan of Rs 10000-15000 for such farmers identified as proposed above, banks can automatically sanction such guaranteed amounts to the identified farmers. To ensure interest and commercial viability of banks, they should be allowed to charge around 9-12% annual simple interest (SBI research proposes[13] 12% simple interest for its proposal on revised KCC) from such loans but with absolutely no extra processing /any other charges of any kind, which is also the present KCC policy.

4.7 We are clear that such an exercise should be undertaken only as a 1 time kick-off process to start a virtuous cycle of ensuring credit linkages for financial inclusion. Once the loan is sanctioned, banks should treat them as other usual customers and if such beneficiary farmer repays his/her loan and interest on time, the limit may be enhanced but after the initial loan sanction and a gestation period, bank should be free to take all such decisions based on customer behavior and profile. This is because the initial barrier to become formally credit linked is very high and this barrier has to be broken first to the advantage of the excluded. Once credit linked, the practice of regular banking and financial transactions and financial discipline would only serve the interests of these borrowers and provide a lot of business for the banks. It is pertinent to mention that as far as loan waivers are concerned, the SBI report cited above has done a pertinent analysis on the practice of loan waivers and find that loan waivers hurt rather than help the farmers. We are of the same view and would suggest that a steady and

[13] https://sbi.co.in/documents/13958/14472/060120-Ecowrap_20200106.pdf/b4841bcc-961b-78e4-2bf9-5feb5adb0104?t=1578311232270

patient process of practising financial transactions would build confidence, financial goodwill and help the cultivator economically over the months and years.

5. Conclusion

5.1 If the Government is serious about achieving its objective of saturation in Agriculture credit, this is a way ahead to create a virtuous cycle and thus it has to provision the required amount as guarantee to the banks towards the KCC loans that this could mobilise for the excluded and credit deprived cultivator. The above, while ensuring saturation of institutional credit to all the farmers, would give a robust estimate of the extent of tenancy, number of landless farmers, actual population engaged in Agriculture and pave the way for better targeted policies to benefit farmers. Due to absence of any official estimates on the extent of tenancy and the number of landless farmers, it is not possible to calculate the money required for such an exercise. At the same time, the entire amount would be in the nature of a guarantee and would get spent only in case of defaults which can be avoided by a sustained information campaign.

References

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