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Effect of Kisan Credit Card on small farmers in India: An Overview

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Abstract:

The present study is based on secondary sources and try to understand the benefits from the kisan credit cards on marginal farmers and how the policy changes their social economic life. The study further focusses on whether the farmers are facing issues and problems while receiving the benefits of KCC. The Kisan Credit Card (KCC) Scheme was launched by NABARD in August 1998 to provide timely and affordable credit to farmers. Currently, the scheme is implemented through three main types of financial institutions**:** commercial banks**,** cooperative banks**,** and regional rural banks**.** The KCC functions as a revolving cash credit facility, allowing farmers to withdraw and repay funds as needed to meet their diverse agricultural credit requirements. By offering flexible and accessible credit, the KCC also plays a key role in strengthening the relationship between financial institutions and agricultural producers**.** According to NSSO (70th round) around 52 per cent of the farm households remained indebted in India as a whole of which the state of Andhra Pradesh had the highest share of indebted agricultural households in the country (92.9 per cent) and Tamil Nadu (82.5 per cent).

Keywords: Kisan credit card, Finance, Debit, Farmers, Problems and Challenges

Introduction:

Agricultural credit is a fundamental requirement for the success of any agricultural development program. In India, where a significant proportion of farmers are economically disadvantaged, access to timely and adequate credit is crucial for sustaining and improving agricultural productivity. Historically, Indian farmers relied heavily on moneylenders for credit. These moneylenders often charged exorbitant interest rates and engaged in exploitative practices, leading many farmers into cycles of unmanageable debt. This dependency resulted in widespread indebtedness, with many farmers trapped in perpetual debt. Post-independence, the Indian government recognized the need for reform and introduced an institutional credit system. This system aimed to provide more equitable and accessible financing through agencies such as cooperatives, commercial banks, and regional rural banks. Progress has been notable. In 1951–52, non-institutional sources accounted for approximately 92% of agricultural credit, while institutional sources contributed only about 7.3%. By 2019, this ratio had improved significantly, with institutional sources providing around 70% of agricultural credit and non-institutional sources reduced to 30%. Despite this progress, the overall volume of loans sanctioned by banking institutions remains inadequate to fully meet the diverse needs of farmers. Small and marginal farmers, in particular, continue to face difficulties in accessing sufficient credit. Greater attention and support are required to ensure equitable distribution of financial resources across all segments of the farming community. (Source: NABARD).

The Kisan Credit Card (KCC) Scheme was launched by NABARD in August 1998. A significant revision of the scheme took place in April 2012, introducing smart cards and debit card features. This update was led by T. M. Bhasin, then Managing Director and Chairman of Indian Bank. Later, in January 2013, NABARD established a specialized unit called the Specialized Project Unit on Kisan Credit Card (SPUKCC) to further support the initiative. By the end of the 2022–2023 financial year, over 1,156.80 lakh KCCs had been issued nationwide, with a total sanctioned amount of ₹5,01,192 crore. Currently, three types of institutions are involved in implementing the scheme: Commercial banks have issued the highest number of KCCs, sanctioning ₹502.91 lakh (approximately 43.47%) by March 2023. Co-operative banks follow closely, with ₹477.87 lakh sanctioned (around 41.30%). Regional Rural Banks (RRBs) contributed ₹176.02 lakh (about 15.21%). Comparing the growth from 2008–09 to 2022–23, commercial banks have increased their sanctioned amount nearly 100 times. In contrast, RRBs recorded a 15-fold increase, while co-operative banks showed a comparatively modest growth of about 43% (Kumar an et al., 2024).

Microcredit can significantly contribute to the development of agriculture, particularly for small, marginal, and tenant farmers. An essential component of a successful poverty reduction strategy is the promotion of efficient use of farm inputs. This can be achieved by enhancing opportunities for small-scale farmers to boost their agricultural productivity. Many microfinance institutions provide loans that support various agricultural activities such as production, processing, trading, and transportation. These loans often lead to greater use of agricultural inputs, which in turn helps increase overall agricultural output. (Zohir and Matin, 2004). Self-Help Group (SHGs) plays a significant role in reaching out and connecting with rural poor women. These groups enable its members to gain their identity as individuals, while realising and utilising the immense power of mutual aid (Mohammad and Mohammed, 2007). Pandit et al. (2007 c.f Sudha and Ashok. 2020) in his study on financing agriculture, a study of Bihar and West Bengal potato cultivation has identified that in Bihar only about 15 per cent farmers opted for institutional loans, whereas, it was more than 34 per cent in case of non-institutional loans. Input traders, fellow farmers, money lenders were the important non-institutional sources in Bihar.

There are so many factors which inhibit especially small and marginal farmers from accessing agricultural credit and financial services timely and at required amount namely age of the household, gender, size of landholding and the role of agent are significantly affected accesses to credit (Vinod and Prajapati, 2012). Moreover, the low bargaining power, bureaucratic and procedural formalities required, asset-based lending and policies of financial institutions and corruption prevailing in the agencies, all worked against small farmers (Kailas,1990). The small size of holdings, the informal and oral nature of tenancy contracts, illiteracy, and low caste status were other inhibiting factors. The higher transaction costs with formal lending have led to an increase in effective rate of interest.

Literature Review:

Gandhimathi and Sumaiya (2015) highlights the impact of the Kisan Credit Card (KCC) system on the distribution of agricultural credit in the country. The analysis revealed that several key variables—such as the presence of rural branches of commercial banks, aggregate deposits, agricultural production, borrowings by commercial banks from the Reserve Bank of India, and the introduction of the KCC scheme—significantly influenced financial inclusion. Furthermore, both regression and logit analyses demonstrated that the implementation of the KCC scheme contributed positively to enhancing financial inclusion within the agricultural sector.

Maurya (2015) stated that the role of co-operative banks in supporting agriculture in the Mohali district of Punjab, with a particular focus on evaluating the impact of agricultural credit provided by these banks. It also explored the attitudes of borrowers and lending agents towards farmers and assessed the effects of credit on various indicators such as asset accumulation, income levels, employment generation, and savings. The study further pointed out that nearly all parameters showed a significant impact from co-operative bank lending in one form or another. However, the banks were unable to comprehensively meet the credit needs of rural farmers. Additionally, the study noted fluctuating trends in rural credit disbursement by both institutional and non-institutional sources over the past five decades. Lending institutions continued to face challenges such as overdue payments and loan defaults.

Godara et al. (2014) focused on analysing the performance of the Kisan Credit Card (KCC) scheme in the state of Haryana, specifically examining its implementation by State Regional Rural Banks (RRBs) and State Co-operative Banks. The primary objective was to evaluate the issuance, sanctioning, and disbursement of KCCs by these institutions. To assess their performance, the Compound Annual Growth Rate (CAGR) was calculated. The findings indicated that Regional Rural Banks performed more satisfactorily compared to Co-operative Banks. Based on the results, several recommendations were proposed: increasing farmer awareness about the scheme, expanding the network of bank branches, focusing on underperforming regions, and urging the government to implement effective measures to enhance the overall performance of the KCC scheme.

Laxyapathi (2013) valuates the Kisan Credit Card (KCC) scheme in both India and Karnataka, with the aim of analysing the growth rate of KCC users and assessing the scheme's impact on crop production and farmers' income. The findings revealed a consistent increase in the number of KCC users, indicating that more farmers are adopting the scheme each year. This growth has been accompanied by a notable rise in crop production. Consequently, the higher yield has led to a significant increase in farmers' income. To enhance the effectiveness and accessibility of the KCC scheme, several measures were recommended. These include the introduction of biometric cards, the implementation of weather-based crop insurance schemes, simplification of the loan application process, and proactive involvement from commercial banks and state governments. Additionally, the development of innovative insurance products could further strengthen the KCC as a farmer-friendly and efficient credit delivery tool.

Rao et al. (2005) examined the implementation of the Kisan Credit Card (KCC) scheme and the specific initiatives undertaken by the Orissa State Co-operative Bank. Data for the analysis was collected through interviews with managers and staff of co-operative banks located in Bhubaneswar, Akhandeswar, and Sishupalgarh, as well as from a few borrowers. The findings revealed that the Orissa State Co-operative Bank was the first institution to roll out the Kisan Credit Card scheme following its launch by the Government of India. The bank played a pivotal role in promoting the scheme among farmers by leveraging technology to bridge the gap between financial services and rural communities (c.f. Kaur and Dhaliwal, 2018).

Singh & Prakash, (2022) concluded that the KCC scheme in India has been performing well in terms of issuing KCCs, with a steady rise in the number of cards issued in India. Additionally, it was shown that the KCC scheme benefits beneficiary farmers more than non-beneficiary farmers, as seen by their farms' higher expenses, returns, production, and productivity.

Mehta, et al. (2016); Mohan (2006) remarked that the farmers now have a convenient way to satisfy their credit demands thanks to the development of the Kisan Credit Card, a novel and significant credit distribution system. The Kisan Credit Card scheme is one of the most creative and well supported schemes of the Indian government since it is a highly valued and non-discriminatory financial instrument.

Prakash and Kumar, (2016) concluded that both the farm operations and revenue of farmers were significantly impacted by the KCC scheme. This study also makes the recommendation that farmers be informed about the advantages of the KCC Scheme. The KCC beneficiaries' ability to quickly access crop loans under the scheme has helped them to generate higher per-ha gross returns. According to the study, beneficiary farmers experienced reduced transaction costs than non-beneficiary farmers.

Beneficiaries & Non-Beneficiaries of KCC.

Kumar et al. (2007) reported that half of the farmers had less than or equal to 5 acres of land. However, 24.67 and 25.33 per cent of the beneficiaries were categorized as medium and large farmers, respectively. The involvement of small farmers (61%) was more in rainfed agro ecosystem than irrigated agro eco-system (38.67%).

Singh and Kumar (2007) reported that, the use of Kisan Credit Card is encouraging and its distribution is less skewed. Age, male-headed households, household size, farm size, level of education, and self-employment in agriculture appear as significant variables positively determining the choice of institutional sources of credit and possession of Kisan Credit Cards.

Vimalraj (2010) reported that, 90.00 per cent of the respondents belonged to middle age group, whereas 6.70 per cent belonged to old and 3.30 per cent belonged to young age group and 10.00 percent of the awarded farmers had small land holding followed by semi medium (30.00%), medium (43.30%) and large (16.70%) land holdings.

Desai et al. (2012) found in their study that a high proportion of the respondents (44.00%) belonged to old age group. More than one third of the respondents had education up to graduation and above (39.00%) level. A large majority of the respondents (89.00%) were having big land holding (>2 ha) while, very negligible per cent of the respondents (1.00%) were landless. More than three-fourth of the respondents (77.00%) belonged to big family. As high as (82.00%) of the respondents belonged to forward caste while, remaining respondents was from backward caste (10.00%) and scheduled caste (8.00%).

Rai Rajesh and Rai j. (2012) revealed that the beneficiaries have some better education as compared to non-beneficiaries due to credit facilities with better return. Overall 56.7 percent respondents from all size groups were found with better socio-economic status through credit facilities provided by lead bank as compared to non-beneficiaries.

Sahu et al. (2012) revealed that the majority of the beneficiary and non-beneficiary respondents were of middle age groups (36 to 50 years) having middle school and primary school level educated, residing in nuclear family system with small size of family (up to 5 members). Majority of the respondents were having marginal land holding (up to 2.50 acre). Majority of the beneficiaries belonged to Rs. 30,001 to Rs. 50,000 (High category) annual income group as compare to non-beneficiaries earned Rs. 20,001 to Rs. 30,000 (Medium category).

Meena and Reddy (2013) revealed that, the income of Kisan Credit Card (KCC) holders is 25 to 30 per cent more than the Non-Kisan Credit Card (KCC) holders. This income gap is attributed because Kisan Credit Card (KCC) holders use good quality input material in agricultural operations. However, the study also says that, the large number of the farmers in both the categories opined that the rate of interest was high (61.67% in Kisan Credit Card (KCC) and 93.33% in Non Kisan Credit Card(KCC)). Hence, the study suggests that as the large number of the farmers in both the categories opined that the rate of interest was high 61.67% in Kisan Credit Card (KCC) and 93.33% in NonKisan Credit Card (KCC) and also there is a need to consider the additional activities related to crop production while fixing credit limit under Kisan Credit Card (KCC).

Farmers Issues and Challenges in India

Pandey and et al., (2019) pointed out a significant factor contributing to farmer distress in Maharashtra is the preference for private lenders over formal financial institutions. The study identifies key reasons for this trend, including bureaucratic hurdles and extensive documentation requirements associated with formal lending channels. One particularly noteworthy finding emerged during the field study: many farmers initially secure loans from formal financial institutions. However, when they are unable to repay these loans, they turn to private moneylenders. The funds borrowed from these informal sources are then used to partially repay their existing loans, thereby maintaining their eligibility for future credit cycles from formal institutions.

Mohan (2006) examined the overall growth of agriculture and the role of institutional credit. While acknowledging the decline in the share of agricultural credit as a percentage of total credit disbursal, the author argued that this trend should not be a cause for concern. This is because the proportion of formal credit relative to agricultural GDP is actually increasing. This indicates that although credit availability is rising, it has not significantly impacted agricultural output, highlighting the limitations of credit as a growth driver. The study also identified several structural issues within the system: insufficient credit for small and marginal farmers, a lack of medium- and long-term lending, limited deposit mobilisation, and a heavy reliance on borrowed funds by key agricultural credit institutions. These challenges have serious implications for both agricultural development and the welfare of the farming community.

Arouri, Nguyen and Youssef (2015) estimate the effect of natural disasters on welfare and poverty of rural households in Vietnam, and subsequently examines household and community characteristics that can strengthen resilience of households to natural disasters. Households in communes with higher mean expenditure and more equal expenditure distribution are more resilient to natural disasters. Access to micro-credit, internal remittances, and social allowances can help households strengthen the resilience to natural disasters.

Narayanan (2016) examines the nature of the relationship between formal agricultural credit and agricultural GDP in India, specifically the role of the former in supporting agricultural growth. Overall, it is quite clear that input use is sensitive to credit flow, whereas GDP of agriculture is not. Credit seems therefore to be an enabling input, but one whose effectiveness is undermined by low technical efficiency and productivity. Notwithstanding these aggregate findings detailed microstudies would be necessary to provide insights into this issue.

Bauer (2016) explains how credit access affects recipient groups heterogeneously. Although there is strong evidence of positive impacts on non-farm income, credit has no effect on farm income, even for recipients with more annual visits to agricultural extension. Credit tends to have significantly positive impacts on household income of the better-off, the richest and those receiving larger credit volumes which implies that households with favourable economic conditions tend to benefit from accessing rural credit. While inadequate access to credit is a major concern in India in general. Previous studies have identified inadequate access to credit as one of the primary impediments to agricultural development (Joshi and Kumar, 2017). However, the source of credit is equally important as some of it may be offered at an exploitative rate of interest. It is well-documented that the rural credit market in India is characterised by the coexistence of formal and informal credit agencies. Formal and informal sources have different implications for agricultural households' welfare, but little empirical evidence has been derived from comparative analyses of the impacts of different sources of credit. Against this background, and with the help of a field survey to be conducted in the state of Haryana, this study aims to contribute to the literature on the impact of different sources of credit.

Conclusion

Agriculture forms the backbone of the Indian economy, making it the most significant sector in terms of both employment and contribution to GDP. Several factors influence agricultural development, including infrastructure, market access, and financing. Among these, credit availability stands out as a critical component for sustained agricultural growth. Recognizing this, policymakers have introduced various initiatives aimed at improving agricultural financing, one of the most notable being the Kisan Credit Card (KCC) Scheme. It explores how access to credit through the KCC has influenced farming practices and crop production. The findings indicate a strong positive correlation between agricultural credit and crop cultivation activities. Furthermore, the KCC Scheme has proven to be highly effective in providing timely financial support to farmers, thereby enhancing their ability to cultivate crops successfully. Major reasons like grapevine bureaucracy, lengthy documentation, etc. as the major reasons for choosing private lenders over the formal financial institutions. Kisan Credit Card is encouraging and its distribution is less skewed. Age, male-headed households, household size, farm size, level of education, and self-employment in agriculture appear as significant variables positively determining the choice of institutional sources of credit and possession of Kisan Credit Cards.

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