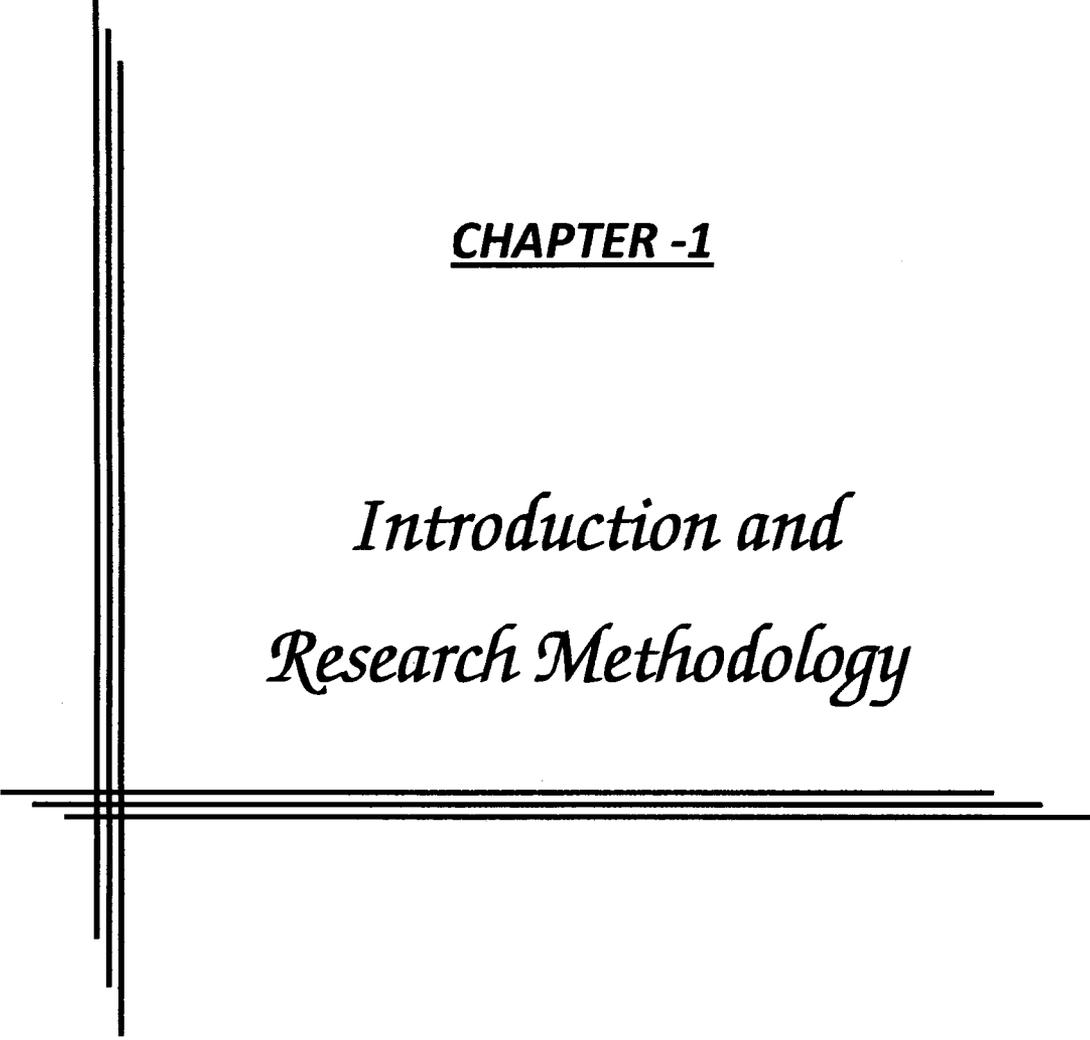


CHAPTER -1

*Introduction and
Research Methodology*



CHAPTER - 1

INTRODUCTION AND RESEARCH METHODOLOGY

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1.1 Introduction:

Agriculture has been the mainstay of our economy. More than 60 per cent of our population depends upon agriculture for their livelihood even though contribution of agriculture to our Gross Domestic Product (GDP) is less than 27 per cent. Nonetheless, the importance of agriculture cannot be underestimated for years to come. The National Agriculture policy waxed eloquent on the value of agriculture. "Agriculture is a way of life, a tradition, which for centuries." Thus runs the opening sentence of the agricultural policy has to shape the thought, the outlook, the culture and the economic life of the people. Agriculture will continue to be central to all the strategies for socio-economic development of the country. Rapid growth of agriculture will not only ensure continued food security but also aid in growth the industry and the GDP. To sustain, the growth in agriculture credit plays a crucial role. The quantum of agricultural credit provided by the banking system (Co-operative Banks, Commercial Banks, and Regional Rural Banks) increased from Rs. 31,956 crores in 1997-98 to Rs. 36897 crores in 1998-99. It has further increased to Rs. 80,000 crores in 2003-2004.

While this is quite impressive considering the overall bank credit for priority sector. Credit for farm sector is not without its share of problems. In order to address the problems in credit for agriculture, the Reserve Bank of India has set up a one man High Level Committee of R.V.Gupta, in December 1997 to suggest measures for improving the delivery systems as well as simplification of procedures for agricultural credit. The committee's mandate was to identify the constraints faced by the commercial banks in increasing the flow of credit, introducing new products and services and simplifying procedures and methods of working with a view to enabling rural borrowers to access adequate and timely credit from the commercial banking system. The committee had submitted its report in April 1998.

Considering the dominant role of the sector and the importance of credit as an input a multi agency approach has been adopted by the Reserve Bank of

India (RBI) for ensuring credit flow to the sector in spite of several improvements in the delivery systems that have been undertaken over time, making institutional credit available to a large number of farmers, particularly small and marginal farmers, continues to be a challenge to the banking industry. Financing for agriculture has been a gigantic task for banks, given the enormity of the credit requirements on the one hand and vagaries of nature on the other. Both RBI and NABARD have taken several initiatives for simplification of system and procedures and designing of innovative credit delivery products in dispensation of agricultural credit. Provision of timely, adequate and hassle-free credit to farmers continues to be one of the major tasks for banks in India.¹

1.2 Role of Agriculture in Indian Economy:

Agriculture plays an important role in Indian economic development. Indian agriculture in the pre-independence period can be correctly described as a subsistence occupation. It was only after the advent of planning and more precisely, after the advent of green revolution in 1966 that, some farmers started adopting agriculture on commercial basis. After the initiation of planning in India, the share of agriculture in GDP at factor cost has persistently declined on account of the development of secondary and tertiary sectors in the economy, from 59.2 per cent in 1950-51, to 27.4 per cent in 1999-2000 (at 1993-94 prices). At 1999-2000 prices, the share of agriculture in GDP at factor cost was 27.3 per cent and 21.7 per cent in 2005-2006.

Agriculture is the main source of livelihood. It is the largest employment providing sector. In 1951, 69.5 per cent of the working population was engaged in agriculture. This percentage slide down to 66.9 per cent in 1999 and to 56.7 per cent in 2001. Most of the under developed countries exhibit this heavy dependence of working population on agriculture e.g. 57 per cent in Bangladesh was engaged in agriculture in 1999, this percentage was 68 in China and 48 in

¹http://cab.org.in/control/know_file/KCC%20report~11~13~2007~6~59~31~PM.PDF. p.4

Pakistan. The percentage of population engaged in agriculture is very much less in developed countries e.g. in Japan and France 4 per cent, in USA and UK 2 per cent was engaged in agriculture in 1999.

Agriculture sector provides food surplus to the expanding population, because of the heavy pressure of population, labour surplus economies like India and its rapid increase the demand for food increases at a faster rate. Agriculture contributes to capital formation. It makes available resources for investment. This contribution is more significant because without it no capital formation can take place. Unless the rate of capital formation increases to a sufficiently high degree, economic development cannot be achieved.

Before the middle of the 19th century, Indian farmers cultivated their lands mainly to satisfy the need of their own families. They were not required to produce cash crops for selling in the open market, but at the beginning of 20th century Indian farmers started producing cash crops like cotton jute, sugarcane, oilseeds, fruits and flowers.

Fundamentally agricultural produces are classified in various categories as food grain, oilseeds, pulses fruits and flowers.

Moreover, a large number of industries in developing countries are agro based and the raw materials from agriculture. Therefore, the steady supply of raw material from agriculture becomes an important pre-requisite for the expansion of such industries. Further, agricultural development can contribute substantially to capital formation, which is an indispensable pre-requisite for general economic development. Also foreign exchange resources are contributed largely by agricultural exports and are of critical importance for the import of capital goods and technical know-how for initiating and sustaining the process of industrialization. Beside, agriculture is the main sector for creating new employment opportunities. It supplies labour to the other sectors along with wage goods. Thus for a developing economy, development of agriculture is an essential pre-requisite for economic growth with stability.

1.3 Importance of Kisan Credit Card Scheme:

Kisan Credit Card (KCC) is one of the most important schemes in India than any other banking credit. In this context, the KCC scheme introduced in 1998-99 was a step towards facilitating the access to short term credit for the borrowers. The scheme was conceived as a unique credit delivery mechanism, which aimed at provision of adequate and timely support of short term credit to the farmers to meet their crop production requirements. The objective was to provide an instrument, which would allow farmers to purchase agricultural inputs such as seeds, fertilizers, pesticides and also withdraw some cash for meeting their production related requirements².

1.4 Significance of the Kisan Credit Card Scheme:

NABARD formulated a model of KCC scheme in consultation with major banks. Model scheme was circulated by RBI to Commercial Banks and National Bank for Agriculture and Rural Development (NABARD) to Cooperative Banks and Regional Rural Banks in August 1998, with instruction to introduce the same in their respective area of operation. As a pioneering credit delivery innovation, Kisan Credit Card Scheme aims at provision of adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible and cost effective manner³.

Farmers have the flexibility to avail of production credit and also avoid procedural delays in getting credit sanctioned for bankers; the need for repeated processing of credit applications is avoided against the target of 75 lakh Kisan Credit Cards to be issued by banks in 2000-2001, Cooperative Banks and Regional Rural Banks issued 63 lakh Kisan Credit Cards involving a credit limit of Rs. 10,812 crores. Further more, to ensure that small and medium farmers are not denied access to Kisan Credit Card facility. NABARD, in consultation with the Reserve Bank dispensed with the floor limit of Rs. 5,000 earlier suggested for

² http://cab.org.in/control/know_file/KCC%20report~11~13~2007~6~59~31~PM.PDF. p.4

³ <http://www.nabard.org/development&promotional/KisanCreditCardmore.asp>.

coverage under the scheme. The loans disbursed under KCC scheme were also brought under the Rashtriya Krishi Bima Yojana of the General Insurance Corporations and Personal Accident Insurance cover of Rs. 50,000/- for death and Rs. 25,000/- for disability from 2001-2002 would be provided to KCC holders⁴.

1.5 Progress of Kisan Credit Card Scheme in India⁵:

The Kisan Credit Card Scheme works through Commercial Banks, Regional Rural Banks and Cooperatives Banks. These banks distributed 59.09 million cards up to 31st March 2006. The detail data of distribution is given below.

Table- 1.1
Progress of KCCS in India
(Up to 31st March 2006)

Year	(Cards in million)			
	Co-op Banks	RRBs	Comm. Banks	Total
1998-99	0.16	0.01	0.62	0.78
1999-00	3.60	0.17	1.37	5.13
2000-01	5.61	0.65	2.39	8.65
2001-02	5.44	0.83	3.07	9.34
2002-03	4.58	0.96	2.70	8.24
2003-04	4.88	1.28	3.09	9.25
2004-05	3.56	1.73	4.40	9.68
2005-06	2.60	1.25	4.17	8.01
Total	30.41	6.88	21.80	59.09
Share of % In total	51.50	11.60	36.90	100.00

Source: Singh Narendra Pal. (2007) "Role of Kisan Credit Card in Rural Credit Management and Development" "Banking Chintan – Anuchintan", Oct-Dec-2007.p.83

⁴ Rao Katuri Nageswara, (2002) "Bank Credit-Emerging Trends", ICFAI, Hyderabad.p.67

⁵ Singh Narendra Pal. (2007) "Role of Kisan Credit Card in Rural Credit Management and Development" "Banking Chintan – Anuchintan", Oct-Dec-2007.p.82

Table No1.1 shows a progressive growth of Kisan Credit Card Scheme, in which maximum share of Cooperative Banks is 51.50 per cent. At the same time the share of Regional Rural Banks is 11.60 per cent and that of Commercial Banks 41, 65,551 Kisan Credit Cards were distributed. As far as state wise distribution is concerned up to 31th March 2006 Cooperatives Banks distributed 67.40 per cent in Uttar Pradesh, Maharashtra, Andhra-Pradesh, Rajasthan, Madhya-Pradesh and Orissa. Regional Rural Banks distributed 59.30 cards in Uttar-Pradesh, Andhra-Pradesh and Karnataka. Public Sector Banks are mainly focusing on Andhra-Pradesh, Uttar Pradesh, Tamilnadu, Karnataka and Maharashtra, with the share of 65.20 per cent KCCs.

In all over India, 74.40 per cent of cards are distributed in Uttar-Pradesh, Andhra-Pradesh, Maharashtra, Tamilnadu, Madhya-Pradesh, Karnataka, Orissa and west Bengal; on the other hand in Jammu-Kashmir, Himachal-Pradesh and north-east part of the country has a very small number of cards distributed.

1.6 Review of Literature:

In this section an attempt has been made to review some of the existing literature on Kisan Credit Card Scheme conducted by the experts.

Singh Harpreet and Sekhon M.K. (2005)⁶ in their article "Cash in Benefits of Kisan Credit Card Scheme: Onus is Upon the Farmer" focused on the status of Kisan Credit Card Scheme in India and economic characteristics of the sample farmers. They examined the cropping pattern and enterprise structure and the procedure of advancing credit. According to them the Kisan Credit Card Scheme aims at adequate and timely support from the banking system to the farmer to meet the credit needs of crop production and ancillary activities. As many as 73 per cent of the Kisan Credit Card beneficiaries were satisfied with the present cost of accessing the Kisan Credit Card limit. All farmers were satisfied with the operational efficiency of the Kisan Credit Card Scheme. The major constraints in the working of the Kisan Credit Card Scheme were identified as too many

⁶ Singh Harpreet and Sekhon M.K. (2005) "Cash in Benefits of Kisan Credit Card Scheme: Onus is Upon the Farmers", *Indian Journal of Agricultural Economics*, Vol-60, No.3 July-sep-2005.p.319

intermediaries in obtaining the suitable securities and finding the guarantor. All the farmers were quite satisfied with the attitude of the loan officers.

Mr. Faruqui Danish (2001)⁷ in his article "Kisan Credit Card" discussed about the features, eligibility, target group and other related aspects relating to the scheme. According to him Kisan Credit Card is beneficial to the farmers for provision of timely and adequate credit. The scheme seems well thought and fall in with good intentions. He thought that, for the success of the scheme education of both farmers and banks officials about the scheme is required. Moreover, there is doubt weather this scheme is a window dressing of bad loans made earlier.

Dr. Kulkarni J.B. (2006)⁸ in his research paper on "Kisan Credit Card- A Review" shows that, the Kisan Credit Card Scheme is well received by the farmers and the bankers also responded to the scheme positively, as it helped them. In his paper, he studied the utilization of loan under Kisan Credit Card. According to him Kisan Credit Card Scheme is introduced for delivery of short term credit to the farmers. The scheme aims at providing need based and timely credit support to the farmers for their short term production needs for cultivation of crops. Purchase of inputs as well as for non-farm short term requirements are covered in the study.

Kumar B.N.⁹ in his article "The Kisan Credit Card" focuses on Kisan Credit Card as a successful product launched by Yashwant Sinha for small farmers. It is growing massively during the last three years. Various banks have issued 15.3 million cards. According to him the benefits of this card are endorsed as the farmers can use the money for any requirement and have insurance covered. The maximum short term credit limit of this card is Rs. 3 lakh. Repayment performance under this facility is much higher than other facilities to the farmers. NABARD aims to cover over 42.5 million farmers within the next three years

⁷ <http://www.ccsindia.org/ccsindia/policy/live/studies/wp0011.PDF> p.1

⁸ Kulkarni J.B. Bank of India Chair, in Rural Banking "Kisan Credit Card: A Review" Seminar on Recent Trends in Banking & Finance, 26th APR.2006.

⁹ Rao Katuri Nageswara, (2002) "Bank Credit-Emerging Trends", ICFAI, Hyderabad.p.65

under this scheme. Though the scheme is not without its inherent limitations, it has achieved significant success. But still some banks have reservations. Kisan Credit Card will help in providing institutional credit at grass root level to the small farmers.

Dr. Singh Narendra Pal (2007)¹⁰ in his research paper "Role of Kisan Credit Card in Rural Credit Management and Economic Development" studied on basis of village farmers. He examined that due to lack of money, farmers are using traditional production techniques and methods, because of it; farm production is not increasing properly. This further leads to more poorness of the farmers and they are living and the below poverty line (BPL). Banks are helping the rural area through the Kisan Credit Card which has positive impact on the development of rural area. To some extent farmers are now free from the debt trap of private money lenders. If the banks simplify the process of Kisan Credit Card not only thousands of farmers but crores of farmers can take the benefits of this scheme. The only condition is the helping approach of the farmers. In banking competitions is increasing day by day, and it is good for the bank that they keep their personal interest rate low and private loan to the farmers at the lower interest rate.

Dahiya Suraj Bhan¹¹ in his article on "Kisan Credit Card a Right Approach" examined how the scheme is helpful to free the farmers from the perennial indebtedness. According to him, the Kisan Credit Card is thus a right step to make the peasantry free from debt. The scheme will help to end exploitation by money lenders, because the money lenders take full advantage of farmer's limitations. Once the peasant has taken a loan from the loan shark, he is permanently live in debt trap.

In short, all authors on Kisan Credit Card scheme proclaimed usefulness of KCC to the farmers. Kisan Credit Card Scheme can play a very vital role in

¹⁰ Singh Narendra Pal. (2007) "Role of Kisan Credit Card in Rural Credit Management and Development" *'Banking Chintan – Anuchintan'*, Oct-Dec-2007.p.82

¹¹ <http://www.tribuneindia.com/1998/98oct10/agro.htm#1>

timely and adequate credit supply. It is useful for increasing the social obligations and standard of living of the farmers.

1.7 Statement of the Problem:

Agriculture is the backbone of the Indian economy, with nearly 67 per cent of the population of the country continuing to depend on it either directly or indirectly for their livelihood."¹² They need adequate and timely supply of short term credit, to meet their crop production requirements on the basis of their land holding for uniform adoption by banks so that the farmers may use them to readily available agricultural inputs such as seeds, fertilizers, pesticides etc. Kisan Credit Card is mostly useful for small and marginal farmers. That is why we want to study impact of the KCC scheme.

KCC is one of the important scheme which give supply of credit to the farmers. Prior to this there were many problems of supply of credit to the farmers, due to lack of water, lack of Hybrid seeds, lack of information about credit supply and lack of capital etc.

But for all these problems, the Kolhapur DCCBs is distributing the Kisan Credit Card through the Mini Kisan Banks (PACS) in Kolhapur district. There are major benefits of farmers, which includes simplifying procedure.

1.8 Objectives of the Study:

The main objectives of the study were set as under -

1. To examine performance of Kisan Credit Card scheme in Kolhapur district
2. To study the usefulness of the Kisan Credit Card to the farmers in Kolhapur district.
3. To examine the consequences caused by Kisan Credit Card working of (PACS) Mini Kisan Banks in Kolhapur district.
4. To Study the impact of Kisan Credit Card on farmers in Kolhapur district.

¹² http://cab.org.in/control/know_file/KCC%20report~11~13~2007~6~59~31~PM.PDF.p.4

1.9 Hypothesis:

Expansion of KCC scheme brings about agricultural development in this region. KCC scheme has facilitated to increase of agricultural production and yield income of the beneficiaries in selected area.

1.10 Research Methodology and Sample Design:

This study is conducted with the use of following methodology.

1.10.1 Research Methodology:

The study was undertaken in the selected areas of Mini Kisan Banks (PACS) spread over in the villages of 12 Taluka of Kolhapur district. The 10 Mini Kisan Banks (PACS) were selected from each Talukas of Kolhapur district and 10 KCC holders from each of the MKBs were selected. Thus the total 100 KCC holders were selected for the study. Moreover, the impact on agricultural development and cropping pattern in agricultural was examined with some indicators through this study.

1.10.2 Area of the Study:

Kolhapur district was selected for conducted a survey and for testing the hypothesis, because the District is having MKBs (i.e. upgraded PACS) and 100 KCC holders from all tehsil areas were selected at simple random method.

1.10.3 Data Collection:

A) Primary Data:

The study was carried out by an empirical investigation by canvassing a structured questionnaire. Simple statistical techniques was employed to test the hypothesis.

B) Secondary Data:

Secondary sources of data was collected from MKBs (PACS) Annual Reports and their records and KDCCBs reports etc.

1.10.4 Use of quantitative techniques:

Keeping in view the objective of the study; some appropriate simple statistical techniques such as percentage, arithmetic mean, diagrams etc. were employed wherever essential.

1.11 Chapter Scheme:

The chapter scheme of the study is set as under –

First chapter introduces the case of KCC and illustrates the methodology. Second chapter gives detailed idea of KCC scheme. Third chapter accounts for the KCCs in Kolhapur and fourth illustrates an impact of KCC on the farmers. The last chapter concludes the analysis with some suggestions.

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