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Kisan (Farmer) Credit Card for 'Less-Cash' Economy: Evidence from India

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Abstract

The revolutionary formal agricultural loans began in India in 1998 which has brought finances to farmers through a single window channel, called Kisan (Farmer) Credit Card (KCC). It also covers farmer's life insurance and fasal bima (crop insurance). Later on, KCC got converted into a plastic card which gradually brought digitization in rural areas in the country. Pace of digital transaction by farmers accelerated after demonetization. In order to analyze the opinions of farmers at the grassroots level this study was conducted in Allahabad district of the Uttar Pradesh, India where difficulties and opinion of farmers regarding digitization in rural areas were recorded. Farmers expressed mixed opinion for digital payment through card. For some it is not convenient while for others it is risky for fear of fraud. Government/banks need to implement mandatory norms for digital payment with full support base in place.

Keywords: Kisan (Farmar) Credit Card

Abbreviations: RRBs: Regional Rural Banks; NABARD: National Bank for Agriculture and Rural Development; SHGs: Self Help Groups; KCC: Kisan (Farmar) Credit Card; NCPI: National Payment Corporation of India; ATMs: Automated Teller Machine; PoS: Point of Sale; DFI: Doubling Farmers' Income; RBI: Reserve Bank of India.

Introduction

Agricultural development is an effort to increase farm production to meet the demands of increasing population and food security across the globe. Ensuring availability of food at the global level could be quite a challenge in future. In a High Level Expert Forum held in Rome concern was expressed about how countries will deal with agricultural problems in 2050. How will the growing population of 21st century cope with the problems of food? How the challenges of lowered agricultural labour force would be dealt with [1]?

Across the world, majority of the people are still engaged in agricultural activity. Among them, India's share of agricultural employment in 2015-16 was 48.9 per cent (majority of rural people). The employment data of Census 2001 and Census 2011 clearly indicate that the number of cultivators in India decreased from 127.3 million in 2001 to 118.7 million in 2011. This shows a shifting trend in employment from farming to non-farming and trading practices. State-led support and incentives to agricultural sector have brought in a planned way of governance in India. Economic survey 2016-17 stated that Indian agricultural growth rate would be 4.1 per cent as opposed to 1.2 per cent in 2015-16 [2].

Farmers need adequate, flexible and timely credit in less cost effective manner to raise crop production. The needs of working capital can be fulfilled from the institutional credit banking system. When the banking system fails to provide loans disbursement to farmers, they are forced to take loans from moneylenders. These informal sources charge high rates of interest resulting in a vicious cycle of indebtedness, also called debt trap, and their further impoverishment [3]. Indian credit system has recognized the limitations of multi-credit product and multi-agency approach. Thus policy makers have recognized the need for an 'integrated credit' product expected to simplify the process of credit availability. This led to the introduction of Kisan (Farmar) Credit Card (KCC) in the year 1998-99 [4].

Agriculture credit and Its flow in India

Since the beginning of the post-reform era, negative policy on credit for agriculture and other priority sectors has manifested in the fatigue of the institutional architecture for rural credit and additional pressure on resources available for agricultural credit operations [5]. Two major reforms have been undertaken for smooth flow of credit where in the first phase various financial establishments were developed like Social control 1968, Bank Nationalization 1969-80, Introduction of lead banks scheme 1969, formation of Regional Rural Banks (RRBs), National Bank for Agriculture and Rural Development (NABARD 1982) and introduction of service area concept in 1989. In the second phase further financial development included financial sector reforms of 1991, launch of micro finance, linkage of Self Help Groups (SHGs) with banks and Rural Infrastructure Development Fund 1995-96 with NABARD.

Kisan (Farmar) Credit Card (KCC) scheme

The KCC include agricultural term loans and allied activities to meet the consumption needs of farmers' which provides timely and adequate support of credit from the formal institutions and improves farmer's accessibility to bank credit for production purposes. The credit delivery mechanism is being simplified and made more flexible for the use of credit through card. Emergence of KCC as a RuPay Card where National Payment Corporation of India (NCPI) designed KCC to be adopted by all the banks where withdrawal is made through Automated Teller Machine (ATMs), Point of Sale (PoS) machines, mobile banking and Aadhar (national identity card for Indian citizens) enabled cards. Scheme has made rapid progress with the banking system as the number of KCC issued went up from 24.3 million in March 2010 to 46.4 million in September 2016 [6].

Agricultural credit flow through KCC has continuously increased from Rupees (Rs.) 5110.29 billion in 2011-2012 to Rs 9598.26 billion from commercial bank, RRBs and cooperative banking sources [7]. Since the beginning of the scheme 29.31 million in Uttar Pradesh state and 150.5 million credit cards have been issued across the country. In the distribution of cards Rs 786.40 billion in Uttar Pradesh and Rs. 5300.35 billion in India was released [8]. In the budget of 2018-19, a provision of approximately Rs 11,000 trillion has been made to meet the requirement of credit in agriculture. By 2022, KCC is expected to be a major contributor in achieving the goal of doubling farmers' income (DFI) and it might also play a major role in digital payment in rural areas in the country.

Digitalization efforts

Deepening credit, last mile digitization and rural infrastructure were our priority during 2016-2017. Dr. Bhanwala, Chairman, NABARD clearly noted that India has a huge population where most of the transactions are done by paper currency and therefore, e-payment will reduce physical transactions where plastic currency takes place. In order to encourage people to adopt e-payment, Reserve Bank of India (RBI) has taken several initiatives to strengthen it keeping in view Payment and Settlement Systems Act, 2007. The Act involves regulated, settlement and lay down to e-payment related policies. Smart card holds potential to promote digital payment replacing physical currency. NABARD monitors conversion of KCC into RuPay Cards on mission mode. After demonetization, government of India has now decided that NABARD would coordinate the conversion of operative/live KCC into RuPay KCCs. The conversion is expected to facilitate the farmers in undertaking financial transactions on digital platform, help them in accessing affordable credit for short periods of time [9]. KCC Scheme revised by RBI and NABARD allowed withdrawal through ATM enabled RuPay KCC with the expected ease in withdrawing cash as and when required.

In countries like US, Japan, France, Germany, cash based transactions are around 20-25 per cent while in India it is 75 per cent. Cashless transaction is a progressive step, but a regular campaign and demonstrations are required to enhance financial literacy among farmers and labourers. RBI has recently unveiled a document Payments and Settlement Systems in India, Vision 2018 in this direction

[10]. Similarly, in a quick move, consequent upon demonetization, Digital Financial Literacy Awareness Programme was ushered in by NABARD to create awareness and demonstrate hands-on experience of various digital banking technologies. The programme has also been extended to school level. Government directed NABARD to expand digital payment infrastructure in rural areas, and extend financial support to eligible banks for deployment of 2 PoS devices in one hundred thousand villages with a population of less than ten thousand. RRB and Co-operative Banks will issue 'RuPay Kisan Cards' and Rs 43.2 million to enable KCC holders to make digital transactions at PoS machines/ATMs [9].

KCC for developing less cash economy: Evidence from the field

In order to seek answer for the question how KCC card was utilized as a debit card for generating 'less cash' economy by farmers, the methodology involved in this study took a purposive random sample of 50 farmers' for their responses recorded in a pre-tested schedule during Oct 2016 to March 2017. Nature of the study was empirical-exploratory research. Two broad categories of respondents were included in the data set: first, 35 KCC beneficiary farmers and second, 15 non beneficiary farmers. The responses of the farmers in the context of digital transaction are presented in the following Table 1.

Type of Respondents	Responses	Frequency	Valid Percent
KCC Non Holder	No to digital transaction	2	13.3
	Yes, they will go with digital transaction	2	13.3
	Not possible till traditional payment abolished	1	6.7
	Strict norms required for digital payment	5	33.3
	Increased awareness required for the program	5	33.3
	Total	**15**	**100.0**
KCC Holder	No to digital transaction	7	20.0
	Yes, they will go with digital transaction	4	11.4
	Not possible till traditional payment abolished	5	14.3
	Strict norms required for digital payment	5	14.3
	Increased awareness required for the program	14	40.0
	Total	**35**	**100.0**

Source: 50 sample Field Survey
Table 1: Farmers' response for digital payment through KCC.

In case of KCC non-holder category, 33.3 per cent farmers (5 out of 15) believe that strict norms by government/banks will increase digital payment, 33.3 per cent said increased awareness will increase digital payment in the rural area. In case of KCC holder category, 40 per cent of farmers (14 out of 35) believe that with increased awareness programme farmers will go for digital payment transactions. One fifth farmers strongly discarded digital payment, while 5 farmers believe digitalization will not be possible till traditional payment system is not abolished and 5 farmers will not accept digitalization card till strict norms and provision of government/bank are imposed on them (Table 1).

It was observed that farmers in India are not well educated; they are not even able to punch mobile numbers in touch screen handsets. How would they operate touch screen based ATM debit cards is a question that remains unanswered. Most of the farmers accept that they are not aware about digital payment system (PoS) so they were not even trying to go beyond traditional payment system due to fear of transaction and other charges as well as fear of cheating in using card and its misuse. These are the reasons why farmers are not easily adopting digital payment system. It was also found that if government makes compulsory provisions for digital payment of card holders, they will definitely dare to learn digital payment operations. Until old and traditional method would be available, farmers will choose traditional method of payments.

Conclusion

Farmers expressed mixed opinion for digital payment through card. For some it is not convenient. They clearly said that until old and traditional methods of payment is available; they will not adopt new technical method. Some of the farmers do not dare to take risk in card swipe payment for the fear of fraud. Few farmers also wanted that government/banks to implement mandatory norms for digital payment.

Indian government could introduce motivational schemes, awareness campaigns using print and electronic media, customer care assistance by banks at counters and other support assistance in card operations along with government assured security support from card theft, misuse and privacy that will boost digitalization of payment system and motivate farmers in moving towards digital transactions. In order to encourage digital payment through card, training programmes need to be initiated and gradually such transactions may be made mandatory. There is a need for educating farmers with close supervision. There is huge gap between existing policy and its actual implementation which can be reduced by maximizing farmers' education for use of KCC. On the basis of a small sample size survey the study findings may not be generalized. There is a need for further in depth exploration for which a larger sample size is required..

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