Kisan Credit Cards scheme

December 24, 2020

In news

Recently the State Bank of India (SBI) Ecowrap report has suggested revisiting the current KCC scheme norms to increase farmers' monthly income.

Key suggestions

- As per SBI's Ecowrap report, the monthly income of farmers will go up by a sharp 35 per cent by just revisiting the current Kisan Credit Card (KCC) norms
- SBI, in its Ecowrap report, suggested that the RBI in conjunction with the government should introduce an operational flexibility in the structure of KCC and direct the banks to allocate a specific percentage of their loans to particularly agri start-ups to give a boost to agri supply chains in India.
- According to the report, a combination of revolving credit (say, share 40%) and term loan (60%) with flexibility of payment could be introduced in lieu of the current KCC scheme.
- It also said that the credits in the revolving limit, equal to at least the interest, can be debited during the year, while principal of the term loan to be repaid over 15 years (180 months) and interest (simple not compounded) should be serviced as and when debited
- As per the SBI report, small tweaks in KCC norms can extend a helping hand to the rural sector.
- It also says that the KCC outstanding data clearly indicates that if per card outstanding is more then there would be less farmer suicide, despite no farm loan waiver by governments

About Kisan Credit Card scheme

- The Kisan Credit Card (KCC) scheme is a credit scheme introduced in August 1998 by Indian banks.
- This model scheme was prepared by the National Bank for Agriculture and Rural Development (NABARD) on the recommendations of R.V.Gupta committee to provide term loans for agricultural needs.
- Its objective is to meet the comprehensive credit requirements of the agriculture sector and by 2019 for fisheries and animal husbandry by giving financial support to farmers.
- Participating institutions include all commercial banks, Regional Rural Banks, and state co-operative banks.
- The scheme has short term credit limits for crops, and term loans
- It provides timely and adequate credit to farmers to meet their needs at the time of crop production (cultivation expenses) and meeting contingency expenses.
- It also covers expenses related to ancillary activities through simplified procedures in obtaining loans as and when needed.
- In 2004 The scheme was further extended for the investment credit requirement of farmers viz. allied and non-farm activities
- Under this scheme, farmers can avail collateral free loan up to Rs 1 lakh.
- Quantum of loan for the 1st year under this scheme is assessed on the basis of the cost of cultivation, post-harvest expenses and farm maintenance cost.
- For subsequent 5 year, loan will be sanctioned on the basis of the increase in the scale of finance.
- The premium under this scheme is borne by both the bank and borrower in respective 2:1 ratio.
- The interest levied on the loan under KCC scheme is around 7 per cent simple interest per annum.
- In case of non-repayment within the due dates, interest is applied at card rate and beyond due date interest will be compounded half yearly.

Who can avail the Kisan Credit Card Scheme

- Farmers – individual/joint borrowers who are owner cultivators;
- Tenant farmers, oral lessees & sharecroppers;
- Self Help Groups (SHGs) or Joint Liability Groups (JLGs) of farmers including tenant farmers, share croppers etc.
- Household consumption limit: While 10 percent of the short-term limit under KCC can be used for household consumption purposes, it is advisable not to divert more funds for consumption expenditure.

Interest Subvention Scheme

- With a view to ensuring availability of agriculture credit {including loans taken against Kisan Credit Card (KCC)} at a reasonable cost/at a reduced rate of 7% per annum to farmers, the Government of India, is implementing an interest subvention scheme of 2% for short term crop loans up to Rs.3.00 lakh.
- Currently, besides 2% interest subvention, the farmers, on prompt repayment of crop loans on or before the due date, are also provided 3% additional interest subvention.
- Thus, in case of prompt payee farmers the short term crop loans are provided at an effective interest rate of 4% per annum.
- The benefit of interest subvention is extended for a period of up to six months (post-harvest) to small and marginal farmers having KCC on loan against negotiable warehouse receipts with the purpose of preventing distress sale of produce