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RBI launches pilot for KCC

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What's in News?

To transform rural credit delivery system, the Reserve Bank has decided to launch pilot projects to digitise Kisan Credit Card (KCC) in Madhya Pradesh and Tamil Nadu.

News Highlights:

The pilot project would entail **automation of various processes within banks and integration of their systems with the service providers**, it said, adding, the proposed digitalisation of the KCC lending process will make it more efficient, reduce costs for borrowers and reduce turn around time (TAT) significantly.

The TAT from loan application to disbursement has also been rather high, ranging from two to four weeks.

Rural credit is closely related to inclusive economic growth, as it caters to the requirements of agriculture and allied activities, ancillary industries, small businesses, etc.

At present, it said, the process for getting such finance requires customer to visit a bank branch in-person along with the proof of land ownership and other documents.

Sometimes, the customer may be required to visit the bank branch multiple times.

Considering the challenges associated with rural finance in India, digitalisation of various aspects of rural finance is an important objective of RBI's Fintech initiatives

This is developed by the **Reserve Bank Innovation Hub (RBIH) in association with RBI**

The pilot will commence in September 2022 in select districts of **Madhya Pradesh and Tamil Nadu** with Union Bank of India and Federal Bank, respectively, as partner banks and with active cooperation of the respective State governments

Kisan Credit Card (KCC) Scheme:

The Kisan Credit Card (KCC) scheme **was introduced in 1998** for issue of Kisan Credit Cards to farmers on the basis of their holdings for uniform adoption by the banks so that farmers may use them to readily purchase agriculture inputs such as seeds, fertilizers, pesticides etc. and draw cash for their production needs.

The scheme was **further extended for the investment credit requirement of farmers viz. allied and non-farm activities in the year 2004.**

The scheme was further revisited in 2012 by a working Group under the Chairmanship of Bhasin, with a view to simplify the scheme and **facilitate issue of Electronic Kisan Credit Cards.**

In the Budget-2018-19, government announced the extension of the facility of Kisan Credit Card (KCC) to **fisheries and animal husbandry farmers** to help them to meet their working capital needs.

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In December 2020 **Revised Scheme to Kisan Credit Card (KCC)** was launched with aim to provide adequate and timely credit support from the banking system under a single window to the farmers for their cultivation and other needs.

The scheme comes with an **ATM-enabled RuPay debit card** with facilities for one-time documentation, built-in cost escalation in the limit, and any number of drawals within the limit.

Applicability of the Scheme:

The Kisan Credit Card Scheme is to be **implemented by Commercial Banks, RRBs, Small Finance Banks and Cooperatives.**

Objective of the Scheme:

- i) To meet the short term credit requirements for cultivation of crops;
- ii) Post-harvest expenses;
- iii) Produce marketing loan;
- iv) Consumption requirements of farmer household;
- v) Working capital for maintenance of farm assets and activities allied to agriculture;
- vi) Investment credit requirement for agriculture and allied activities.

Eligibility:

- i. Farmers - individual/joint borrowers who are owner cultivators;
- ii. Tenant farmers, oral lessees & share croppers;
- iii. Self Help Groups (SHGs) or Joint Liability Groups (JLGs) of farmers including tenant farmers, share croppers etc.

Issues with Kisan Credit Card:

Although KCC was a noble idea to help needy farmers, it has become a tool that is being misused by many, including people who are financially well off.

Funds borrowed under KCC schemes are often getting **diverted for non-agriculture activities**, such as real estate investment, other business activities, purchase of expensive cars and jewellery, higher education of children in foreign countries, indigenous lending, etc.

Borrowers commonly avail higher loans from banks by inflating the quantum of land under cultivation. This is achieved in two ways:

(1) In case of owned lands, borrowers often resort to **“double dipping”**—borrowers and family members avail multiple loans either from the same bank or from different, for the same piece of land owned by them.

This largely remains undetected by banks as, in many cases, checks are not performed by them to identify such instances.

(2) In case of leased lands, oral lease agreement is permitted by banks and regulators, hence many borrowers disclose fictitious lease agreements that have only acreage with no identifiable details to inflate the quantum of

loan.

In India, even today, agricultural transactions are done predominantly in cash (which is permitted) and banks in most cases don't ask for documents to support a borrower's claim that the cash deposited is generated from agriculture purposes only.

Hence, the KCC route being used for **money laundering activities** cannot be ruled out.