

Agricultural Credit and Kisan Credit Card: Strengthening India's Rural Economy

Madhu D. M^{1*}, Gangadhar K.², Narayan Murigeppa Gunadal³, Harshitha H.C⁴. and Vineeth H. T⁵

¹Ph.D Scholar, Department of Agricultural Economics, UAS, Bangalore-560 065, Karnataka, India.

²Ph.D Scholar, Department of Agronomy, UAS, Bangalore-560 065, Karnataka, India.

³Ph.D. Scholar, Department of Agribusiness Management, UAS, Dharwad-580005, Karnataka, India

⁴Ph.D Scholar, Department of Agricultural Economics, UAS, Dharwad- 580005, Karnataka, India

⁵Ph.D Scholar, Department of Agricultural Extension, UAS, Bangalore-560 065, Karnataka, India.

Corresponding Author: dmmadhu.econ07@gmail.com

Introduction

Agriculture is the backbone of India's economy, contributing significantly to the nation's GDP, employment, and food security. It employs nearly 50 per cent of the country's workforce and accounts for about 18-20 per cent of India's gross domestic product (GDP). Beyond its economic contribution, agriculture plays a vital role in sustaining rural livelihoods and ensuring food availability for the country's vast population. India is one of the world's largest producers of crops like rice, wheat, sugarcane, cotton and spices, making it a key player in global agriculture. However, the sector faces challenges such as fragmented landholdings, dependence on monsoon rains, and limited access to modern technology and financial resources.

Access to timely and adequate credit is crucial for farmers to meet their agricultural needs, such as purchasing seeds, fertilizers, pesticides and machinery. Agricultural credit enables farmers to invest in their farms, adopt modern technologies and improve productivity. Without access to formal credit, many farmers are forced to rely on informal sources like moneylenders, who often charge exorbitant interest rates, leading to cycles of debt and financial distress. Agricultural credit, therefore, acts as a lifeline for farmers, helping them sustain their livelihoods, manage risks, and contribute to the overall growth of the agricultural sector.

To address the challenges faced by farmers in accessing credit, the Government of India, in collaboration with the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD), launched the Kisan Credit Card (KCC) scheme in 1998. The KCC scheme is a pioneering initiative designed to provide farmers with timely, flexible and affordable credit for their agricultural and allied activities. The scheme aims to simplify the credit delivery process, reduce farmers' dependence on informal credit sources and ensure

that they have access to adequate financial resources throughout the crop cycle. Over the years, the KCC scheme has emerged as a vital tool for promoting financial inclusion and empowering farmers across India.

Agricultural Credit in India

Agricultural credit refers to the financial assistance provided to farmers and individuals engaged in agricultural activities to meet their farming-related expenses. The primary purpose of agricultural credit is to enable farmers to purchase inputs like seeds, fertilizers, pesticides, and machinery, as well as to invest in infrastructure such as irrigation systems and land improvement. It plays a critical role in enhancing agricultural productivity, ensuring food security, and improving the livelihoods of farmers. By providing access to credit, farmers can adopt modern technologies, manage risks, and sustain their agricultural operations.

Types of Agricultural Credit

Agricultural credit is categorized based on the duration and purpose of the loan. The three main types are:

a) Short-term Credit: Used to meet short-term needs such as purchasing seeds, fertilizers, pesticides, and other inputs for crop cultivation. Typically repaid within a year, aligned with the crop cycle. Helps farmers manage day-to-day expenses and ensures smooth agricultural operations during the cropping season.

b) Medium-term Credit: Used for purchasing equipment, livestock, or making minor improvements to farmland. Repayment period ranges from 1 to 5 years. Enables farmers to invest in assets that enhance productivity and diversify their income sources.

c) Long-term Credit: Used for long-term investments such as land improvement, construction of irrigation systems, purchasing heavy machinery, or other infrastructure development. Repayment period extends beyond 5 years. Supports sustainable

agricultural practices and helps farmers make significant improvements to their land and farming methods.

Institutional Credit Sources

Institution Type	Role in Agricultural Credit
Commercial Banks	Provide short-term and long-term credit at subsidized rates.
Cooperative Banks	Offer credit to small and marginal farmers at lower interest rates.
Regional Rural Banks	Operate in rural areas, providing credit to farmers at affordable rates.
NABARD	Regulates and refines credit institutions for rural development.

Challenges Faced by Farmers in Accessing Credit

Despite the availability of agricultural credit, farmers in India face several challenges in accessing formal credit facilities. These challenges include:

- a) Lack of Collateral:** Many small and marginal farmers do not possess the required collateral (such as land titles or assets) to secure loans from formal financial institutions. This forces them to rely on informal sources of credit, which often charge high-interest rates.
- b) High-Interest Rates:** Even when formal credit is available, the interest rates can be prohibitive for small farmers with limited income. While government schemes offer subsidized rates, the reach of these schemes is often limited.
- c) Limited Reach of Formal Financial Institutions:** Many rural areas lack adequate banking infrastructure, making it difficult for farmers to access formal credit. Farmers in remote regions often have to travel long distances to reach the nearest bank or financial institution.
- d) Complex Documentation and Procedures:** The lengthy and complex loan application processes deter many farmers from seeking formal credit. Lack of awareness about government schemes and eligibility criteria further complicates the process.
- e) Regional Disparities:** Access to credit is uneven across regions, with farmers in economically backward areas facing greater difficulties in securing loans.

Evolution of Kisan Credit Card (KCC)

The Kisan Credit Card (KCC) scheme was introduced in August 1998 by the Government of India in collaboration with the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD). The scheme was launched to address the longstanding challenges faced by farmers in accessing timely and adequate credit for their agricultural needs. Prior to the KCC scheme, farmers often relied on informal sources of credit, such as moneylenders, who charged exorbitant interest rates, leading to cycles of debt and financial distress. The KCC scheme was designed to provide a structured and flexible credit delivery mechanism tailored to the unique needs of farmers (Kaur and Dhaliwal, 2018).

The KCC scheme was inspired by the success of similar credit card models in other countries and aimed to bring farmers into the fold of formal financial systems. Over the years, the scheme has evolved to include not only crop loans but also credit for allied activities like dairy, poultry, and fisheries, making it a comprehensive financial tool for farmers.

Key Features of the Kisan Credit Card

- 1. Flexible Credit Limit:** Credit is sanctioned based on the crop pattern, landholding, and farmer’s repayment capacity. Covers both short-term crop loans and long-term investment needs.
- 2. Affordable Interest Rates:** Offers subsidized interest rates under the Interest Subvention Scheme. Additional interest rebate for timely repayment.
- 3. Comprehensive Coverage:** Covers input costs like seeds, fertilizers, pesticides, and irrigation expenses. Includes post-harvest expenses, working capital for dairy, poultry, fisheries, and other allied activities.
- 4. Flexible Repayment Options:** Linked to the harvesting and marketing cycle of the crop. Repayment period can extend up to 5 years for term loans.
- 5. Insurance and Risk Coverage:** Includes personal accident insurance of ₹ 50,000 for death and ₹ 25,000 for disability. Covers risk due to natural calamities and market fluctuations.

<p>6. Easy Withdrawal and Transactions: Farmers can withdraw money through bank branches, ATMs, and digital banking platforms. Works like a debit card with an overdraft facility.</p> <p>7. Simplified Documentation: Minimal paperwork required for loan approval. Faster processing compared to traditional agricultural loans.</p>	<p>8. Validity and Renewal: The card is valid for five years with an option for renewal. Credit limit can be enhanced based on repayment history and inflationary costs.</p> <p>9. Digital Integration: Some banks provide e-KCC, allowing online applications and digital transactions. Mobile banking and SMS alerts for balance updates and due dates.</p>
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Table 1: Number of fresh Kisan Credit Cards (KCC) sanctioned by type in India

Types	Sanctioned	Per cent
Crop loan with dairy	585559	17.30
Crop loan with other allied activities	111525	3.30
Dairy	2428103	71.74
Poultry	70644	2.09
Others	259455	7.67
Total	3384642	100.00

Source: Ministry of Fisheries, Animal Husbandry and Dairying, Govt. of India.

Table 2: Number of operative Kisan Credit Cards (KCCs), outstanding crop loan and term loan in India (Number in Lakh: Amount: Rs. in Crore)

Year	Number of operative KCC	Outstanding crop loan	Outstanding term loan	Outstanding Loan for Animal Husbandry and Fisheries	Total
2016-2017	234	385189	49813	-	435002
2017-2018	235	390602	40720	-	431322
2018-2019	236	413670	41409	-	455079
2019-2020	242	423588	46556	-	470144
2020-2021	307	413903	36161	-	450064
2021-2022	269	433408	29306	13559	476273
2022-2023	283	461391	37551	19694	518636
2023-2024 (Provisional)	298	493362	46332	35279	574973

Source: Ministry of Fisheries, Animal Husbandry and Dairying, Govt. of India.

The table 1 shows the distribution of fresh Kisan Credit Cards (KCC) sanctioned across different agricultural and allied activities in India. The dairy sector received the highest number of KCC sanctions, accounting for 2,428,103 cards (71.74 % of the total), highlighting the sector's significance in rural livelihoods and government support for dairy farming. The crop loan with dairy category accounted for 585,559 sanctions (17.30 %), indicating a growing trend of integrated farming. Meanwhile, crop loans with other allied activities received 111,525 sanctions (3.30 %), and poultry farming accounted for 70,644 (2.09 %), reflecting lower but notable participation in these sectors. The "others" category, which may

include fisheries, sericulture, and other farming-related activities, had 259,455 sanctions (7.67 %). With a total of 3,384,642 fresh KCCs issued, the data underscores the government's efforts to extend institutional credit beyond traditional crop farming, promoting diversification and financial inclusion in agriculture.

The table 2 presents the trend of operative Kisan Credit Cards (KCCs) and outstanding loans in India from 2016-17 to 2023-24 (Provisional). Over the years, the number of operative KCCs has fluctuated, increasing from 234 lakh in 2016-17 to 298 lakh in 2023-24, reflecting efforts to expand credit access to farmers. The outstanding crop loan has shown a consistent

increase, rising from ₹3,85,189 crore in 2016-17 to ₹4,93,362 crore in 2023-24, indicating a growing reliance on institutional credit for agricultural activities.

Similarly, the outstanding term loan, which supports long-term agricultural investments, varied over the years, peaking at ₹49,813 crore in 2016-17 and reaching ₹46,332 crore in 2023-24. From 2021-22 onwards, loans for animal husbandry and fisheries have been reported separately, showing a significant rise from ₹13,559 crore in 2021-22 to ₹35,279 crore in 2023-24, highlighting the growing importance of allied agricultural activities in credit expansion. The total outstanding agricultural loan has seen a steady rise, reaching ₹5,74,973 crore in 2023-24, reflecting increased credit penetration in India's agricultural sector and the growing financial needs of farmers

The table 3 highlights the trend in operative Kisan Credit Card (KCC) accounts and outstanding loan amounts in India from March 2020 to September 2024. Over this period, the number of operative KCC accounts has steadily increased from 6.52 crore in March 2020 to 7.75 crore in March 2024, indicating growing adoption of the KCC scheme among farmers. As of September 2024, the number of active KCC accounts stood at 7.72 crore, showing sustained participation in the scheme.

Table 3: Number of Operative Kisan Credit Cards (KCC) Accounts and Amount Outstanding in India

As on	No. of Operative Accounts (In actuals)	Amount Outstanding (Rs. in Crore)
31.03.2020	65280254	743573
31.03.2021	73745010	753431
31.03.2022	71490107	815314
31.03.2023	73470282	885464
31.03.2024	77504234	981763
30.09.2024	7.72*	9.99**

Note: In Crore;** : Rs. in Lakh Crore.
Source: Press Information Bureau, 2024.

The amount outstanding under KCC loans has also witnessed a significant rise, from ₹ 7.43 lakh crore in March 2020 to ₹ 9.81 lakh crore in March 2024, reflecting an increasing demand for agricultural credit. By September 2024, the total outstanding loan amount had crossed ₹ 9.99 lakh crore, underscoring the expanding role of institutional credit in supporting agricultural activities. The steady rise in both

operative accounts and loan amounts suggests the growing financial inclusion of farmers and increased reliance on formal credit mechanisms for agricultural and allied activities in India.

The table 4 presents the budget allocation and actual fund disbursement for the fisheries sector in India from 2014-15 to 2023-24. Over the years, there has been a steady increase in the allocated budget, rising from ₹6,000 crores in 2014-15 to ₹23,000 crore in 2023-24, reflecting the government's commitment to promoting fisheries and allied activities.

However, the disbursement of funds has not always matched the allocated budget. While funds were fully utilized in the early years, from 2017-18 onwards, disbursements have often been lower than the allocated amount. For example, in 2023-24, only ₹14,251.92 crores were disbursed against an allocation of ₹23,000 crore, showing a gap in fund utilization. An exception was observed in 2021-22, when ₹21,476.93 crores was disbursed, exceeding the budgeted ₹19,468.31 crores, indicating additional fund requirements in that year.

The variations in fund disbursement suggest challenges in fund absorption, implementation efficiency, and sectoral demand fluctuations. Despite this, the consistent budget growth highlights the increasing importance of fisheries in India's agricultural economy, particularly in employment generation, export potential, and rural development.

Table 4: Budget Allocation and Disbursement of Funds for Fisheries Sector in India

(Rs. in Crore)

Year	Budget Allocation	Disbursement of Funds
2014-2015	6000	6000
2015-2016	13000	13000
2016-2017	13397.13	13397.13
2017-2018	15000	13045.72
2018-2019	15000	11495.67
2019-2020	18000	16218.75
2020-2021	21175	17789.72
2021-2022	19468.31	21476.93
2022-2023	19500	17997.88
2023-2024	23000	14251.92

Source: India stat, 2023.

Impact of the Kisan Credit Card Scheme

The Kisan Credit Card scheme has had a profound impact on Indian agriculture and rural livelihoods. Some of its key achievements include:

1. **Increased Credit Flow:** The KCC has significantly increased the flow of institutional credit to the agricultural sector. Millions of farmers who were previously dependent on moneylenders now have access to formal credit, reducing their vulnerability to exploitation.
2. **Improved Productivity:** With access to timely and adequate credit, farmers can invest in high-quality seeds, fertilizers, and modern farming techniques. This has led to increased agricultural productivity and higher incomes for farmers.
3. **Risk Mitigation:** The insurance component of the KCC has provided farmers with a safety net, enabling them to recover from crop failures and natural disasters. This has encouraged them to take calculated risks and adopt innovative farming practices.
4. **Financial Inclusion:** The KCC has played a crucial role in promoting financial inclusion in rural India. By bringing millions of farmers into the formal banking system, the scheme has empowered them to participate in the broader economy.
5. **Women Empowerment:** The KCC scheme has also benefited women farmers, who often face greater challenges in accessing credit. By providing them with their own credit cards, the scheme has enhanced their financial independence and decision-making power.

Challenges and the Way Forward

Despite its success, the Kisan Credit Card scheme faces certain challenges that need to be addressed to maximize its impact. These include:

1. **Awareness and Outreach:** Many farmers, especially in remote areas, are still unaware of the benefits of the KCC. Efforts must be made to increase awareness and ensure that the scheme reaches all eligible farmers.

2. **Timely Disbursement:** Delays in the disbursement of credit can undermine the effectiveness of the scheme. Banks must streamline their processes to ensure that farmers receive credit in a timely manner.
3. **Inadequate Coverage of Tenant Farmers:** Tenant farmers and sharecroppers, who constitute a significant portion of the agricultural workforce, often face difficulties in accessing KCC due to the lack of land ownership. The scheme should be expanded to include these farmers.
4. **Digital Divide:** While digital banking has made the KCC more accessible, many farmers, particularly older ones, lack the skills and resources to use digital platforms. Training programs and support services should be provided to bridge this gap.

Conclusion

The Kisan Credit Card scheme has emerged as a cornerstone of agricultural credit in India, transforming the lives of millions of farmers. By providing them with easy access to affordable credit, the scheme has empowered farmers to invest in their crops, improve productivity, and enhance their livelihoods. However, to fully realize its potential, the scheme must address existing challenges and adapt to the evolving needs of the agricultural sector. With continued support and innovation, the Kisan Credit Card can play a pivotal role in ensuring the sustainability and prosperity of Indian agriculture.

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