**Workshop on Workshop on ‘Evaluation of Kisan Credit Card Scheme in Bihar’**

**May 29, 2012, ADRI, Patna**

1. **Welcome Note**

 Dr Anjan Mukherji, Country Director, IGC India-Bihar welcomed all the participants ofthe meeting. He expressed gratitude to Mrs. N. Vijayalaxmi, IAS, Secretary, Department of Agriculture, Government of Bihar and Mr Anup Mukerji, Former Chief Secretary, Government of Bihar- on whose request the project was commissioned by IGC India-Bihar - for agreeing to attend and provide feedback. Dr Mukherji gave a brief overview of the IGC India-Bihar programme, stating that the intention behind setting up the programme is to undertake demand-driven research for policy makers and other stakeholders to aid and sustain Bihar’s recent growth experience.

1. **Presentation by Areendam Chanda**

**2.1 Objectives of the Study**

Areendam Chanda presented the objective, methodology and findings of the study:‘***Evaluating the Kisan Credit Card (KCC) Scheme: Some Results for Bihar and India***’

He explained that the study is mainly interested in answering four questions- 1. What are the determinants of variation in KCC adoption across states in India? 2. What are the effects of KCC on state level agricultural productivity, food grain yields and also overall state GDP per capita? 3. What explains the variation in KCC lending across districts in Bihar? 4. Have the KCC lending had an impact on agricultural productivity in Bihar?

**2.2 Methodology and Findings of the study**

He explained that the study covers only the period 2004-05 to 2010-11, even though the scheme has been around for much longer. This is mainly because of data unavailability for pre 2004 period. He presented summary statistics to familiarize the audience to the current status of the KCC scheme in India and Bihar. He then presented the econometric specifications and results of the regressions that he used to answer the questions specified above. These include:

a). Determinants of KCC adoption across states

To examine question 1 he ran both ordinary least squares (OLS) and fixed effect (FE) regressions. The OLS specification is



In this specification, the dependent variable is a measure of KCC (amount relative to GDP or account holders relative to rural population). The independent variables include a lagged value of KCC to control for path dependency, a control for financial market development (usually commercial bank credit to the agricultural sector relative to agricultural GDP) and some additional controls such as the lagged share of agriculture and literacy rates. To test if Bihar’s achievement has been different from other states, two additional variables are included: a dummy variable for Bihar and a second dummy variable for other BIMARU states.

The results of this regression suggest that despite controlling for several factors such as initial agricultural productivity, share of agriculture in the overall economy and literacy rate, Bihar tends to do relatively well in terms of KCC lending, though BIMARU states do even better.

b) Impact on growth rate of states

In order to examine the impact of KCC lending on growth rate, the following OLS regression model was run:



Contrary to the popular perception, the results of this regression show that KCC lending have no impact on GSDP growth rates. One may think the impact of KCC lending might be dependent on the initial level of agricultural productivity and therefore the author investigated further by introducing an additional variable by interacting KCC lending with initial agricultural productivity but even this interaction variable does not have any impact on economic growth.

c) Determinants of KCC lending across districts of Bihar

The results of regression analysis seem to indicate that while district level inequalities in the number of people with access to credit has been declining; inequality in the amount of credit is increasing.

d) KCC and growth across Districts

The regression results show that KCC lending has had no impact on agricultural productivity. The robustness checks by trying different measures of KCC lending and changing the time-period of analysis continue to show no relationship between KCC lending and agricultural productivity.

Dr. Chanda ended the presentation by emphasizing on the need for further research to explain why there does not seem to be any relationship between agricultural productivity and KCC lending.

Discussion

An official from National Bank for Agriculture and Rural Development (NABARD) raised a few concerns over the presentation made by Areendam Chanda. He was of the opinion that the conclusions reached in the study should not be made without an investigation at the primary level and taking into account the perception of bankers and borrowers. He also said that the fact mentioned by him during the presentation that the default rate is zero is incorrect. If this would be the case, there would have been no problem at all. He also pointed out that one of the variables used – ratio of KCC accounts to rural population is not representative as rural population includes both farmers and non farmers. This in his opinion should not be used to ascertain the impact of the KCC on agricultural productivity.

Areendam Chanda responded to the concerns raised by NABARD officer in a concise and objective manner. First of all he clarified that the study is trying to assess impact at the macro level and is trying to answer the question of KCC’s impact on agricultural productivity, which is a macro question. He said that to be able to do this it was not essential to carry out a survey and could be answered using secondary level data. He elucidated on the default rate observation saying that that was just to highlight the fact that there is no data that has been collected on default rates, which is extremely essential. Regarding the feedback on using rural population as a proxy for rural cultivators, he responded that he had used data on agricultural workers from Census 2011 as well and that the data on rural cultivators was not available yet.

An official from the Reserve Bank of India (RBI) remarked that the recovery rate for the loans disbursed under the KCC is close to 40 per cent. He questioned Areendam Chanda’s conclusion stating that it is difficult to conclude that the KCC had no effect on growth rates in agriculture. A representative from the State Level Banker’s Commitee (SLBC) said that growth had taken place in the sector. Even though the cropped area was almost the same, the productivity in agriculture had gone up by 300 per cent.

Areendam Chanda explained that he did not disagree that Bihar’s economy and the agriculture sector had not experienced growth in the last few years. All his study was trying to explain was that the growth and increase in agricultural productivity experienced in the sector cannot be contributed to the KCC scheme.

After listening to these observations, the Secretary, Department of Agriculture gave a brief overview of the work that is being undertaken by the Department of Agriculture to improve the agricultural productivity in the State. In the last year, 10 per cent of the area under paddy has been covered by System of Rice Intensification (SRI). This has led to increase in productivity and Bihar surpassed the national average. A lot of input support is also being given to farmers. She said that she would like to know the uptake of KCC in the State.

The official from RBI responded that the requirement is to cover 100 per cent of the farmers. He also mentioned that the Reserve Bank had requested the government to provide them with a list of farmers per village so that banks can not only map the borrowers and the defaulters, but also target the farmers to ensure greater coverage. Areendam Chanda reiterated some of the results that he presented during his presentation saying that coverage of the scheme is very low. States that picked up in the early phases when the scheme was launched have stayed far ahead over time. Averaged over 2005-06 to 2009-10, the ratio of the number of KCC accounts to the rural population was 1.8 per cent against the national average of 3.1 per cent.

Former Chief Secretary, Anup Mukerji requested Areendam Chanda to explain how productivity in Bihar had increased even though yields had declined. Areendam Chanda responded saying that yield is a ratio of output to land and productivity is a ratio of output to workers. It is possible that the inverse relationship may be caused by the land labour ratio in the State.

Prabhat P. Ghosh, Director, Asian Development Research Institute (ADRI) remarked that even though KCC might not have had an impact on agricultural productivity, it definitely has had an impact on the profitability of agriculture by reducing the cost of credit and irrigation significantly.

Anjan Mukherji, Country Director, IGC India Bihar closed the discussion thanking the participants for the discussion. He also said that this was a first look at the performance of the KCC at the macro level and agreed with the suggestions of the participants that this needed a closer look.

Later in the evening, Areendam Chanda with the members of the country team had a meeting with the Sushil Kumar Modi, Deputy Chief Minister, Government of Bihar to brief him about the findings of the study. He agreed with Areendam Chanda that there needs to be greater understanding on the use of these agricultural loans and it was likely that they were being used for consumption more often than to aid agriculture. He also concurred on the fact that there was need for more data regarding the default rates and the uptake of the Kisan Credit Card in Bihar. Mr Modi requested Areendam Chanda to take a closer look at the scheme by doing primary level analysis by undertaking a survey. He also suggested that the questionnaire be discussed with him before undertaking the study for incorporating his inputs.