



Kisan Credit Card (Dairy) Data-enabled Agricultural Credit for Financial Inclusion

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Credit is an important input for increasing agriculture production as well as for Financial Inclusion. Agriculture, in the broader sense, covers both Crop production and Animal Husbandry (AH). A typical Indian farm undertakes both crop cultivation and allied activities like dairying and integrates both enterprises. The credit requirements of the farmers for crop cultivation are largely met by the Banks through the issuance of Kisan Credit Cards (KCC). Over the years, farmers have also become fully conversant with the operation of KCC for cultivation of crops. However, their requirement of credit for working capital for animal husbandry has not been fully met. Despite the big push being given by the Government of India, only a fraction of the working capital requirement of Animal Husbandry, more particularly, Dairy Animals, has been met by banks through issuance of KCC (AH). The major reasons are lack of awareness among the farmers, not so customer friendly loan underwriting process and the complexity in operation of accounts. Also, the average ticket size is not big enough to enthruse the banks. KCC Dairy through digital lending could provide the fillip to bridge the gap.

Milk Production and Food Grains production

The production of the two principal food grains viz., rice and wheat stood at 226.73 MT (2019-20)¹ and the total milk production was 198.44 MT². The estimated value of the milk produced (@Rs.30 per Kg) is Rs.5.95 lakh crore and is nearly equal to the combined value of the two principal food grains which (@ an average of Rs. 28 per kg) is about Rs. 6.35 lakh crore.

The Milk production has increased from 127.9 MT in 2011-12 to 198.4 MT in 2019-20. The Compound Annual Growth Rate (CAGR) of milk production in the country during 2013-14 to 2020-21 is 6.21%.

There are about 8 crore Dairy farmers in India. The Hon'ble Finance Minister in the meeting held with Public Sector Bank (PSB) CEOs in July 2022 noted that as on 1st July 2022 about 19.56 lakh KCC (Dairy and Fisheries) have been issued. That works out to less than 4% coverage of Dairy Farmers. A deeper analysis is required to identify the challenges, remove misconceptions if any and take necessary course correction.

Market size does matter

About 46% of the milk produced is either consumed at the producer level or sold to non-producers in the rural area, the balance 54% of the milk is available for sale to organised and unorganised players. The total size of dairy market was about Rs. 11.35 lakh crore in 2020. The liquid milk market represents about half of the total dairy market in the country. Of the total liquid milk market, the share of organised sector has increased from 32 % to 41 % in last 3 years³. Thus, on a conservative basis, it can be assumed that roughly one third of the milk produced (valued at Rs.2,00,000 crore) is marketed through organized sector.

For the milk procured by the cooperatives and the private dairies, the milk proceeds are directly transferred to farmers' bank accounts which means around Rs.2,00,000 crore cash flows through Dairy

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¹Annual Report 2021-22, Department of Agriculture and Farmers Welfare.

²Annual Report 2021-22, Department of Animal Husbandry and Dairying.

³Annual Report 2021-22, Department of Animal Husbandry and Dairying.

Farmers' Bank accounts per annum. Dairying is perhaps the only major agricultural activity other than sugarcane cultivation where entire sale proceeds of milk procured by the organized sector are channelized through bank accounts. It is this feature the farmers can leverage to get better access to working capital credit. Also, this regular cash flow should significantly lower banks' perception of risk associated with such small ticket advances and re-orient the banks positively.

EASE 4.0

The Hon'ble Union Finance Minister launched EASE 4.0 (Enhanced Access and Service Excellence) agenda one year back. EASE agenda is a common reform agenda for Public Sector Banks (PSBs), which is aimed at institutionalising clean and smart banking.

Simplified credit under EASE 3.0 Agenda had a good impact on Retail loans and MSME through proactive sourcing of credit, reduction of tax, credit initiation through digital channels and doorstep support. However, it did not have the same impact on agricultural credit.

Under EASE 4.0, reforms agenda viz., "Data-enabled Agricultural Credit", "Empowered customers and hassle free experience" and "EASE of credit-further simplified, instantaneous" have put agricultural credit also on the forefront.

Data-enabled Agricultural Credit

If banks turn their focus on KCC Dairy, they can make significant progress under Ease 4.0, also it can also lead to a paradigm shift in the Agricultural credit delivery system and eventually, data-enabled agricultural credit will become a reality sooner than later in letter and spirit.

KCC Dairy is an ideal product for the banks to offer as pre-approved credit through digital lending. The basic criteria for offering pre-approved credit facilities are properly verified KYC, good credit history and

stable income. Since, the dairy farmer is already a customer of the bank, verification of KYC can be done from the Customer Information file already available with the Bank. Credit history can be traced from the data available with the bank as well as by accessing credit reports from Credit Information Companies. Stable income can be assessed through summation of milk proceeds credited in the farmers' accounts.

It is a fairly easy task to identify those farmers who satisfy the norms by engaging simple business analytical tools at backend and to offer pre-approved credit to the farmers.

The quantum of credit is normally arrived at based on the scale of finance per animal. In the absence of readily available data on the number of animals maintained by the farmer, an alternative methodology could be used to assess the quantum of credit. The credit limit can be arrived at as a percentage (say 30%) of average milk proceeds credited in the farmer's account during the past period (one to three years).

Thus, the dairy farmers also can have all the advantages of pre-approved credit including quick and paperless application processing, minimum documentation and collateral free instant loans.

Win-Win situation

This is one Agricultural Credit facility where the cost of credit to farmers is very low at 4% (after interest subvention of 3%) and the Credit Cost to the banks will also be very low because of ring fencing of cash flow.

KCC Dairy as a Financial Inclusion initiative

To quote Mr. Arun Raste, then Executive Director, NDDDB, "As per a study conducted by NDDDB it was found that 85 percent of the work in the dairy sector is done by women. Microfinance and dairy have become economic multipliers as far as rural economics is concerned. 40 percent of the dairy farmers become

microfinance customers when they wish to purchase a milch animal.”⁴

In India, the microfinance landscape is dominated by Self Help Group (SHG)-Bank linkage program. As per NABARD’s publication, ‘Status of Microfinance in India 2021-22’, as on March 2022, the outstanding credit to SHGs through banks stood at Rs.151051 crore covering 67.40 lakh SHGs⁵ (with more than eight crore members). SHG bank linkage program has been the most prominent Financial Inclusion initiative and has a profound impact in the rural ecosystem.

The other important players, Microfinance Industry lenders namely NBFC-MFIs/NGO, MFIs are not far behind. Outstanding credit through NBFC-MFI

and NGO MFIs stood at Rs.96841 crore covering 4.26 crore individual borrowers.⁶ The top ten States viz Tamilnadu, Bihar, Karnataka, Uttar Pradesh and Maharashtra, Madhya Pradesh, West Bengal, Odisha, Rajasthan and Jharkhand account for nearly 3.55 crore loans amounting to Rs.82142 crore (85%). The average ticket size is Rs.38000. The contribution of these Microfinance Industry lenders, though commendable, comes at a much higher cost (at around 20% to 24% per annum) to the borrowers. However, these individual borrowers still prefer Microfinance Industry lenders over banks because of the ease at which both the credit dispensation and recovery happens and doorstep delivery of services.

Table 1: State wise estimates of Milk Production and lending by Microfinance Industry

Estimates of Milk Production (2019-20)		Lending by Microfinance Industry as on 31.03.2022	
State	Milk Production (in 000 tons)	No. of MFI loans (Rs. in lakhs)	Outstanding balance (Rs. in crore)
Uttar Pradesh	31864	42	9355
Rajasthan	25573	20	4808
Madhya Pradesh	17109	34	7655
Gujarat	15292	11	2664
Andhra Pradesh	15263	2	573
Punjab	13348	11	2165
Maharashtra	12024	30	7606
Haryana	11735	7	1692
Bihar	10480	58	13009
Karnataka	9031	44	12015
Tamil Nadu	8759	57	13242
West Bengal	5859	28	4925
Telangana	5590	0	68
All Other States	16513	83	17064
All India	198440	426	96841
Source: Department of Animal Husbandry, Dairying & Fisheries, Ministry of Agriculture and Farmers Welfare, GoI		Source: NABARD publication- Status of Microfinance in India 2021-22	

It is not a coincidence that these states are also among the major milk producing states. The scale of finance for a three animal unit under KCC Dairy is about Rs.52500 in Tamilnadu which is more than the

average ticket size of microfinance industry lenders. It is a clear pointer that if only access to credit through KCC Dairy and a convenient cash payment mechanism are made available at ease to the Milk

⁴The Free Press Journal, dated 27-07-2020.

⁵NABARD’s publication, ‘Status of Microfinance in India 2021-22’.

⁶NABARD’s publication, ‘Status of Microfinance in India 2021-22’.

producers, KCC Dairy can very well substitute the high cost borrowing from Microfinance lenders. Thus, KCC Dairy as a financial package has the potential to emerge as a major Financial Inclusion initiative.

Other attendant benefits

The farmers can also leverage the cash flow through the bank accounts to avail themselves of a bouquet of other products like term loan for purchase of animals, repayment of high cost debt from money lenders or MFIs, housing and other consumption needs. From banker's perspective, the regular cash flow throws open a window of opportunity to design innovative and customer centric products suitable for dairy farmers. To cite an example, banks can design a Gold Loan Product (which is one of the most popular and hassle free loan products in rural areas) exclusively for the Dairy farmers, where the Loan to Value (LTV) of Jewel can be enhanced to 100% as against the present level of 70% to 85%. Another product could be for monetizing the livestock assets by extending term loans for calf rearing or for repayment of debts incurred by the farmer for purchasing livestock.

Some Operational Issues to be addressed

At present, banks open a separate KCC account and transfer the amount (milk proceeds) credited in the Savings Bank (SB) account to the KCC account at regular intervals. This is a cumbersome procedure, for it involves manual intervention by bank staff and for the farmers, this procedure entails understanding the process of flow of milk proceeds through two accounts. Ideally, the existing SB account can be converted as 'SB cum KCC' account with a specific drawing limit, so that opening of another account and manual intervention by the society or the bank for transfer of money from one account to another can be avoided.

Farmers are much more conversant and comfortable

with EMI mode of repayment rather than operating a KCC facility within the limit sanctioned. The banks have to address this issue and impart necessary financial literacy to the farmers on the advantages of operating the KCC account as a 'Cash Credit' facility and avoid operating multiple accounts.

Further, banks should ensure that the farmers have the freedom and comfort to withdraw cash from any/all service points viz., Bank branch, ATM, Business Correspondents (BCs) at village level and Merchant PoS of their choice, in a hassle free manner. Ideally, cash payments should be made by the business correspondents at the place where milk procurement centers are located, on the same day milk proceeds are credited in the bank account. Any slackness in this may lead to customer dissatisfaction and may drive the customers away. It is of paramount importance for banks to put in place necessary infrastructure at all service points.

Sending SMS irrespective of the amount of transaction and updating of pass book at regular intervals at Business Correspondent points will obviate the need for customers to visit the branch and save their time.

These small positive steps may immensely enhance the customer's experience for a dairy farmer who is not as tech savvy as its urban counterpart.

Banks may desist from the practice of insisting on traditional tie-up letter/undertaking letter from the Cooperative Society officials or the Private Dairy authorities for routing the milk proceeds and avoid paperwork as well as third party interventions.

Alternatively, it may be of mutual interest for the cooperative societies and banks to enter into a MoU with the former as a Business Correspondent for sourcing of applications, periodical sharing of data, ensuring transfer of milk proceeds on a continued basis and sorting out any ground level problems. The

banks may come forward to pay some commission (say 0.50% of the credit) to the societies for their services which will be an additional income to the societies. Also, such institutionalized arrangements will help them in scaling up their operations as a producer organization.

Milk Procurement by Private Dairies and Cooperatives

There are 228 dairy cooperative milk unions covering

about 172.63 lakh farmers under the ambit of 1.96 lakh village level dairy corporative societies. The total number of Private Dairies (Milk Processing Units) as per FSSAI Licenses (till May 2019) is 1944.⁷ At all India level, the milk procured by Private Dairies and Cooperatives are almost equal even though there is wide variation among individual States. For example, in Uttar Pradesh, milk procurement by private dairies and cooperatives is in the ratio of 95:5, whereas, in Gujarat, it is 5:95.

Table 2: Milk Procurement Scenario 2020-21 (LKPD – lakh kg per day)

State	Private Dairies	Cooperatives
Maharashtra	123-127	36-38
Uttar Pradesh	121-125	5-7
Tamil Nadu	75-79	36-38
Andhra Pradesh	35-37	14-16
Punjab	30-32	17-19
Madhya Pradesh	30-32	9-11
Haryana	27-29	4-6
Telangana	12-14	5-7
Rajasthan	27-29	28-30
Karnataka	12-14	80-84
Gujarat	12-14	225-227
Bihar	7-9	18-20
Other States	33-35	47-49
All India	557-562	535-540

Source: CRISIL Research Data on Milk procurement by Dairy Companies in India (ANI News Agency Report dated 06.10.2021)

Therefore, it is important that the banks focus both on cooperatives and private dairies according to the market conditions prevailing in a particular state.

Way forward

Banks may put in place necessary Business Analytical tools to source, process, and underwrite KCC Dairy credit proposals through digital mode. Initial focus could be on members of Milk Producers Cooperative Societies. Parallely, in states like Tamil Nadu, Maharashtra, Uttar Pradesh, Andhra Pradesh, Punjab, Haryana, Madhya Pradesh, where Private Dairies are

dominant players, a collaborative approach with the Private Dairies may help in wider coverage without much loss of time. Banks, guided by the business potential may go all out to bring 1.50 crore dairy farmers within the ambit of KCC dairy and this data driven Agricultural Credit is bound to emerge as an important Financial Inclusion initiative in the near future.

Let the Data-enabled Agricultural Credit flow the 'Milky' way.



⁷ Annual Report 2021-22, Department of Animal Husbandry and Dairying.