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India Strengthens Rural Credit Ecosystem Through Institutional Reforms, Digital Finance and Inclusive Agricultural Lending Framework

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Recent Developments:

- **India's rural credit ecosystem** has witnessed significant expansion through **institutional reforms, digital financial inclusion and technology-enabled credit delivery**, strengthening access to affordable finance for agriculture and rural livelihoods.
- **NABARD's Rural Economic Conditions and Sentiments Survey (May 2026)** indicates that nearly **51% of rural households** now rely exclusively on **formal credit sources**, while over **27%** combine institutional and non-institutional borrowing, reflecting gradual formalisation of rural finance.
- The **FY 2025–26 Ground Level Credit (GLC) target** has been enhanced to **?32.50 lakh crore**, with **?5 lakh crore** earmarked for **animal husbandry, dairying and fisheries**, demonstrating the Government's focus on diversified rural livelihoods.
- Recent initiatives such as **PM Dhan-Dhaanya Krishi Yojana (PM-DDKY)**, **PACS digitisation**, **enhanced KCC loan limits**, **Jan Samarth Portal** and **e-KCC** are improving the accessibility, efficiency and transparency of rural credit delivery while reducing dependence on informal lenders.

Current Rural Credit Landscape:

Meaning and Importance:

- **Rural credit** refers to the supply of financial resources to rural households for **agriculture, allied activities, rural enterprises, consumption, asset creation and livelihood generation**, enabling both economic development and social security.
- A well-functioning rural credit system strengthens **agricultural productivity, rural employment, entrepreneurship, household resilience and inclusive economic growth**, making it a vital pillar of India's rural development strategy.
- Rural credit also facilitates **risk management, investment in modern technologies, mechanisation and climate-resilient agriculture**, thereby supporting long-term agricultural transformation.

Scope of Rural Credit:

- Rural credit addresses **short-term production loans**, **medium-term investment requirements** and **long-term capital formation** across agriculture and rural sectors.
- Credit requirements extend beyond crop cultivation to include **animal husbandry, dairying, fisheries, horticulture, agro-processing, rural micro-enterprises, self-employment and household consumption**, thereby supporting diversified rural livelihoods.
- Institutional finance also assists rural households during **natural disasters, health emergencies and income shocks**, improving financial resilience.

Developmental Significance:

- Timely access to affordable institutional credit enables farmers to purchase **quality seeds, fertilisers, irrigation equipment, farm machinery and modern agricultural inputs**, resulting in higher productivity and income.
- Rural credit encourages **asset creation, employment generation, value addition and entrepreneurship**, thereby contributing to balanced regional development.
- Improved access to finance also strengthens **food security, poverty reduction, financial inclusion and rural purchasing power**, creating multiplier effects across the rural economy.

Present Credit Structure:

- India's rural credit system has evolved from dependence on **informal moneylenders** to a diversified institutional framework supported by **Scheduled Commercial Banks, Regional Rural Banks, Cooperative Banks, Small Finance Banks, NABARD, Self-Help Groups and digital financial platforms**.
- Institutional finance now coexists with limited informal borrowing, although informal sources continue to remain relevant in remote regions due to easier accessibility and flexible lending practices.
- According to recent **NABARD** estimates, formal financial institutions now constitute the dominant source of rural borrowing, indicating gradual expansion of organised rural finance.

Evolution of India's Rural Credit System:

Early Institutional Initiatives:

- During the initial decades after Independence, rural credit remained heavily dependent on **moneylenders and informal lenders**, resulting in high indebtedness and exploitative lending practices.
- Recognising the importance of institutional finance, the Government initiated measures to strengthen agricultural credit through specialised institutions and commercial banking reforms.

Rural Banking Expansion (1955):

- The establishment of the **State Bank of India** and creation of the **National Agricultural Credit (Long-Term Operations) Fund** marked the beginning of systematic rural banking expansion.
- These reforms significantly improved agricultural finance through wider branch networks and greater institutional lending.

Bank Nationalisation (1969):

- Nationalisation of **14 major commercial banks** redirected banking policy towards **Priority Sector Lending**, ensuring greater availability of institutional credit for **small and marginal farmers, rural artisans and weaker sections**.
- Branch expansion in rural areas accelerated after nationalisation, reducing regional disparities in banking access.

Establishment of NABARD (1982):

- The establishment of the **National Bank for Agriculture and Rural Development (NABARD)** integrated rural refinance, development finance and institutional supervision under a single apex institution.
- NABARD strengthened rural financial institutions through **refinance assistance, infrastructure financing, capacity building, policy support and institutional development**, becoming the cornerstone of India's rural credit architecture.
- The institution also promotes **financial inclusion, district credit planning, watershed development, producer organisations and rural entrepreneurship**, extending its role beyond conventional agricultural finance.

SHG-Bank Linkage Programme (1992):

- The launch of the **Self-Help Group-Bank Linkage Programme (SHG-BLP)** created one of the world's largest community-based financial inclusion models.
- The programme expanded formal banking access among **women, poor households and vulnerable communities**, encouraging savings mobilisation, collective responsibility and improved repayment performance.
- The initiative significantly reduced dependence on informal lenders while strengthening women's economic empowerment.

Kisan Credit Card (1998):

- Introduction of the **Kisan Credit Card (KCC)** simplified agricultural lending through flexible and timely credit availability for crop cultivation and allied activities.
- The scheme reduced procedural delays, encouraged institutional borrowing and provided farmers with revolving credit facilities according to seasonal requirements.

Financial Inclusion Era (2014 onwards):

- The launch of **Pradhan Mantri Jan Dhan Yojana (PMJDY)** expanded universal banking access and strengthened the **JAM (Jan Dhan-Aadhaar-Mobile) architecture**, enabling seamless delivery of subsidies, insurance and credit services.
- The programme significantly increased financial inclusion by bringing previously unbanked rural households into the formal banking system.

Promotion of Rural Entrepreneurship:

- The **Pradhan Mantri MUDRA Yojana (PMMY)** expanded collateral-free institutional finance for rural micro-enterprises and non-farm activities.
- The scheme supported **self-employment, micro-enterprises and rural entrepreneurship**, thereby diversifying rural income sources beyond agriculture.

Digital Transformation of Rural Credit:

- Recent initiatives such as **Jan Samarth Portal, e-KCC, digital KYC, Aadhaar-enabled authentication and Common Service Centres (CSCs)** have transformed rural credit delivery into a faster, more transparent and technology-driven system.
- Digital integration has reduced transaction costs, improved monitoring, enhanced transparency and accelerated loan processing across rural India.

Institutional Architecture of Rural Credit:

Overview:

- India's rural credit system operates through a **multi-institutional framework** designed to ensure widespread availability of affordable institutional finance across different categories of borrowers.
- The institutional architecture combines **commercial banking, cooperative institutions, specialised rural banks, development finance institutions and community-based financial organisations**, enabling comprehensive rural credit delivery.

Scheduled Commercial Banks (SCBs):

- **Scheduled Commercial Banks** constitute the largest institutional source of rural credit and play a central role in financing agriculture, allied sectors and rural enterprises.
- These banks provide services through **physical branches, Business Correspondents, digital banking platforms, PMJDY accounts and Direct Benefit Transfer (DBT) infrastructure**, expanding formal

financial access.
- A **Scheduled Commercial Bank** is a banking institution included in the **Second Schedule of the Reserve Bank of India Act, 1934**, fulfilling specified regulatory requirements.
- Rural branch expansion has strengthened institutional outreach, with rural **SCB branches increasing from about 41,000 in 2014 to over 56,000 by 2025**, reflecting continuous expansion of rural banking infrastructure.

Regional Rural Banks (RRBs):

- **Regional Rural Banks**, established under the **Regional Rural Banks Act, 1976**, focus primarily on the financial needs of **small and marginal farmers, agricultural labourers, artisans and rural entrepreneurs** .
- RRBs combine the local familiarity of cooperative institutions with the professional management of commercial banks, ensuring better outreach in rural and underserved regions.
- At present, **28 RRBs** operate through **more than 22,000 branches** covering nearly **700 districts**, making them one of the largest rural banking networks in the country.
- Recent consolidation of RRBs has improved **capital adequacy, operational efficiency, digital capability and financial sustainability**, enabling better rural credit delivery.

Cooperative Banking System:

- **Cooperative Banks** constitute the oldest institutional mechanism for rural finance and operate on the principles of **mutual assistance, democratic governance and community participation**.
- Their extensive grassroots network enables credit delivery to **small farmers, landless labourers, rural artisans and economically weaker sections**, particularly in remote areas where commercial banking penetration remains limited.
- The cooperative credit structure comprises **State Cooperative Banks, District Central Cooperative Banks and Primary Agricultural Credit Societies (PACS)**, ensuring multi-tier financial support from the State level to village level.
- Besides credit delivery, cooperative institutions also facilitate **input distribution, agricultural marketing, storage, procurement and rural development programmes**, making them integral to the rural economy.

Small Finance Banks (SFBs):

- **Small Finance Banks**, introduced following the **Union Budget 2014–15** and licensed by the **Reserve Bank of India**, promote financial inclusion by providing affordable banking services to underserved sections.
- These banks primarily cater to **small businesses, micro-enterprises, small and marginal farmers, unorganised sector workers and low-income households**, using technology-driven and low-cost operating models.
- Their emphasis on digital banking, doorstep services and simplified lending procedures has expanded formal credit access in underserved rural markets.
- At present, **11 Small Finance Banks** operate across India, complementing the broader institutional framework for inclusive rural finance.

Role of NABARD in Rural Credit:

Apex Development Financial Institution:

- **National Bank for Agriculture and Rural Development (NABARD)** serves as India's apex development financial institution for agriculture, rural development and rural credit.

- Established under the **National Bank for Agriculture and Rural Development Act, 1981**, it commenced operations on **12 July 1982** by integrating the agricultural credit functions of the **Reserve Bank of India** and the **Agricultural Refinance and Development Corporation (ARDC)**.

Major Functions:

- Provides **refinance support** to banks engaged in agricultural and rural lending.
- Finances **rural infrastructure projects** through the **Rural Infrastructure Development Fund (RIDF)**.
- Supervises **Regional Rural Banks** and **Cooperative Banks** to strengthen institutional stability.
- Prepares **Potential Linked Credit Plans (PLPs)** and supports **district-level credit planning**.
- Promotes **financial inclusion, Farmer Producer Organisations (FPOs), watershed development, climate-resilient agriculture, Self-Help Groups and rural entrepreneurship**.
- Acts as an important policy institution for strengthening **inclusive, sustainable and technology-driven rural development**.

Policy Framework for Rural Credit:

Priority Sector Lending (PSL):

- **Priority Sector Lending (PSL)** is a mandatory **Reserve Bank of India (RBI)** framework that requires banks to allocate a specified proportion of credit to sectors with high developmental importance but relatively limited access to institutional finance, thereby promoting balanced and inclusive economic growth.
- The framework supports **agriculture, micro and small enterprises, weaker sections, education, housing, renewable energy and social infrastructure**, ensuring equitable distribution of institutional credit.
- **Agriculture Credit Targets:**
- Banks are required to allocate at least **18% of Adjusted Net Bank Credit (ANBC)** or **Credit Equivalent of Off-Balance Sheet Exposure (CEOBE)**, whichever is higher, to the agriculture sector.
- Within agricultural lending, **14%** is earmarked for **non-corporate farmers**, while **10%** is reserved for **small and marginal farmers**, ensuring targeted support to vulnerable cultivators.

Ground Level Credit (GLC):

- The **Union Government** annually fixes **Ground Level Credit (GLC)** targets to ensure adequate institutional finance for agriculture and allied activities across States and lending agencies.
- The **FY 2025–26 GLC target** has been increased to **?32.50 lakh crore**, reflecting continued emphasis on expanding formal agricultural credit.
- Agricultural credit disbursement recorded an average annual growth of **over 13% during FY 2015–FY 2024**, indicating sustained expansion of institutional lending.
- A dedicated sub-target of **?5 lakh crore** has been provided for **animal husbandry, dairying and fisheries**, encouraging diversification beyond traditional crop cultivation.

Self-Help Group–Bank Linkage Programme (SHG-BLP):

- **SHG-BLP**, pioneered by **NABARD** in **1992**, connects rural **Self-Help Groups (SHGs)** with formal banking institutions, creating one of the world's largest community-based financial inclusion initiatives.
- The programme promotes **regular savings, financial discipline, collateral-free lending and collective responsibility**, particularly empowering rural women and economically weaker households.
- The programme received significant momentum under **Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM)**, which strengthened women-led SHGs through capacity building, livelihood promotion and financial literacy.
- As of **July 2025**, more than **10.05 crore rural women** had been mobilised into over **90.90 lakh SHGs**, making it one of the largest women-centric development programmes globally.

- Around **50,548 Bank Sakhis** facilitate **account opening, loan applications, repayment, digital transactions and credit linkage**, improving financial access while reducing **Non-Performing Assets (NPAs)**.

Primary Agricultural Credit Societies (PACS):

- **PACS** represent the grassroots tier of India's cooperative credit system and provide **short-term agricultural loans, input distribution, storage, procurement and marketing support** at the village level.
- The Government has approved establishment of **2 lakh new multipurpose PACS, dairy cooperatives and fishery cooperatives** across all Panchayats over five years, expanding rural institutional infrastructure.
- Digitisation has emerged as a major reform, with over **61,800 PACS** migrating to a **Common Enterprise Resource Planning (ERP)-based national software platform**, improving transparency, interoperability and operational efficiency.

Modified Interest Subvention Scheme (MISS):

- **MISS** provides **short-term crop loans** through the **Kisan Credit Card (KCC)** at a subsidised interest rate of **7%**, while prompt repayment reduces the effective interest burden to **4%**, encouraging timely repayment and responsible credit behaviour.
- The **Union Budget 2025–26** enhanced the loan ceiling under **MISS** from **?3 lakh to ?5 lakh**, while the limit for **fisheries and allied activities** was increased from **?2 lakh to ?5 lakh**, expanding affordable institutional finance.
- From **January 2025**, the collateral-free limit for short-term agricultural loans was raised from **?1.6 lakh to ?2 lakh**, improving access for small and marginal farmers.

PM Dhan-Dhaanya Krishi Yojana (PM-DDKY):

- Approved in **July 2025**, **PM-DDKY** focuses on **100 relatively underperforming agricultural districts** through convergence of **36 Central schemes** implemented by **11 Ministries**.
- The scheme aims to improve **agricultural productivity, crop diversification, irrigation, post-harvest infrastructure, sustainable farming practices and institutional credit access**, promoting balanced regional agricultural development.
- By integrating credit with infrastructure and technology, the scheme seeks to improve farm incomes while reducing regional disparities in agricultural performance.

Financial Inclusion and Digital Rural Credit:

Kisan Credit Card (KCC):

- **KCC** remains the flagship institutional credit instrument for farmers by providing **adequate, timely and flexible credit** for agriculture and allied activities through simplified procedures.
- The scheme offers features such as an **ATM-enabled debit card, one-time documentation, flexible withdrawals, revolving credit and provisions for cost escalation**, reducing dependence on informal lenders.
- Credit support covers **crop cultivation, post-harvest management, marketing expenses, household consumption, farm maintenance, dairy, fisheries, animal husbandry and certain non-farm activities**, making it a comprehensive rural credit instrument.
- Beneficiaries include **owner cultivators, tenant farmers, oral lessees, sharecroppers and SHGs/Joint Liability Groups (JLGs)**, while coverage was extended to **animal husbandry and fisheries** in **2019**.
- **NABARD's e-KCC Portal** enables end-to-end digital processing of crop loan applications for **Regional Rural Banks** and **Rural Cooperative Banks**, reducing paperwork and improving transparency.
- Farmers can also apply through nearby **Common Service Centres (CSCs)**, enabling faster loan processing and sanction within a short time.

- The Government, **RBI**, **NABARD** and banks regularly conduct **financial literacy programmes, Financial Literacy Camps and Financial Literacy Week** to improve awareness regarding responsible borrowing and formal financial services.

Pradhan Mantri Jan Dhan Yojana (PMJDY):

- **PMJDY** provides universal banking access by ensuring at least one basic savings account for every household along with access to **credit, insurance, pension and RuPay debit cards**, strengthening financial inclusion.
- The scheme forms the foundation of the **JAM (Jan Dhan–Aadhaar–Mobile) Trinity**, enabling transparent and efficient **Direct Benefit Transfer (DBT)** of government subsidies and welfare benefits.
- As of **June 2026**, more than **58.63 crore Jan Dhan accounts** had been opened with deposits exceeding **?3 lakh crore**, reflecting deepening financial inclusion.
- Women account holders exceed **32.68 crore**, while **45.62 crore accounts** belong to rural and semi-urban areas, highlighting the programme's strong rural outreach.

Jan Samarth Portal:

- Launched in **2022**, the **Jan Samarth Portal** serves as a unified digital platform connecting citizens with multiple Government-sponsored credit-linked schemes, including **KCC**.
- The portal provides **scheme eligibility assessment, digital application, loan tracking and coordination between beneficiaries, financial institutions and Government agencies**, improving transparency and efficiency in credit delivery.

Jan Dhan Darshak Application:

- The **Jan Dhan Darshak App** enables citizens to locate **bank branches, Automated Teller Machines (ATMs), Bank Mitras and Common Service Centres**, improving access to formal financial services.
- The application also assists policymakers in monitoring banking penetration and identifying underserved villages requiring additional financial infrastructure.
- Nearly all villages now have access to a banking outlet within a **5 km radius**, representing a major milestone in rural banking outreach.

Technology-Driven Credit Delivery:

- Digital technologies such as **Aadhaar authentication, mobile banking, digital Know Your Customer (e-KYC), Unified Payments Interface (UPI), Direct Benefit Transfer (DBT), Artificial Intelligence-based credit assessment and fintech partnerships** are transforming rural credit delivery.
- Technology reduces documentation, transaction costs and processing time while improving transparency, accountability and monitoring of institutional lending.
- Digital innovations also facilitate **credit history creation, fraud prevention and doorstep financial services**, encouraging greater participation in formal financial systems.

Challenges in Rural Credit:

Structural Challenges:

- **Small and fragmented landholdings** reduce the repayment capacity of many farming households.
- **Climate variability, crop failures and price fluctuations** increase credit risk and repayment uncertainty.
- Limited formal documentation among tenant farmers and sharecroppers continues to restrict access to institutional finance.
- Regional disparities persist despite expansion of banking infrastructure.

Institutional Challenges:

- Informal lenders continue to dominate in remote areas because of faster loan disbursement and procedural flexibility.
- Rising **Non-Performing Assets (NPAs)** in certain agricultural segments affect the financial sustainability of lending institutions.
- Delays in loan processing and inadequate credit appraisal continue to affect timely credit delivery in some regions.

Digital Challenges:

- Digital literacy remains uneven across rural India.
- Connectivity gaps and limited digital infrastructure continue to constrain technology-based financial services in remote areas.
- Concerns relating to **cybersecurity, digital fraud and data privacy** require stronger regulatory safeguards.

Way Forward:

Measures for Strengthening Rural Credit:

- Expand institutional credit to **tenant farmers, oral lessees, landless labourers and Farmer Producer Organisations (FPOs)** through innovative lending models.
- Strengthen **climate-resilient agricultural finance**, crop insurance and weather-based risk management mechanisms.
- Accelerate digitisation of **PACS**, cooperative institutions and rural banking infrastructure.
- Promote **digital financial literacy** to improve responsible borrowing and enhance adoption of digital financial services.
- Improve convergence among **NABARD, RBI, commercial banks, cooperatives, SHGs, fintech companies and State Governments** for integrated rural financial development.
- Encourage greater use of **data-driven credit assessment, digital land records and alternative credit scoring mechanisms** to improve access for underserved borrowers.
- Continue strengthening **financial inclusion, rural entrepreneurship and diversified livelihood financing** to support sustainable rural transformation.

Value Addition for UPSC:

Constitutional Provisions:

- **Article 38 —** Promotion of social, economic and political justice.
- **Article 39(b) —** Equitable distribution of material resources for the common good.
- **Article 43 —** Promotion of cottage industries and rural employment.
- **Article 46 —** Promotion of educational and economic interests of weaker sections.

Important Institutions:

- **Reserve Bank of India (RBI)**
- **National Bank for Agriculture and Rural Development (NABARD)**
- **Regional Rural Banks (RRBs)**
- **Primary Agricultural Credit Societies (PACS)**
- **Small Finance Banks (SFBs)**

Important Committees:

- **All India Rural Credit Survey Committee (1954)**
- **M. Narasimham Committee on Rural Credit (1975)**
- **R. V. Gupta Committee on Agricultural Credit (1998)**
- **Vyas Committee on Flow of Credit to Agriculture and Related Activities (2004)**

Major Government Initiatives:

- **Priority Sector Lending (PSL)**
- **Kisan Credit Card (KCC)**
- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**
- **Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM)**
- **Modified Interest Subvention Scheme (MISS)**
- **PM Dhan-Dhaanya Krishi Yojana (PM-DDKY)**
- **Jan Samarth Portal**
- **e-KCC**
- **Digital PACS Mission**

UPSC Mains Enrichment:

- A resilient rural credit system must move beyond **credit expansion** towards **credit quality, digital inclusion, climate resilience, livelihood diversification and institutional convergence**. Future reforms should emphasise **last-mile financial access, technology-enabled lending, responsible finance and inclusive rural entrepreneurship**, enabling rural credit to function as a catalyst for **agricultural transformation, poverty reduction and sustainable rural development**