DOI: https://doi.org/10.70381/380.2026.10

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Chapter

Analyses of Credit Access and Rural Financial Inclusion in India

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ABSTRACT

Access to rural credit remains a cornerstone of inclusive and sustainable economic development in India, particularly in a country where a substantial proportion of the population depends on agriculture and allied activities for livelihood. Efficient rural financial systems not only enhance agricultural productivity but also support entrepreneurship, risk management, and income diversification among rural households. The present study examines the structure, expansion, and trajectory of rural financial inclusion in India using secondary data collected from various sources. The empirical findings revealed significant progress in the expansion of formal rural credit. Institutional agricultural credit disbursement increased from ₹ 8.45 lakh crore in 2014-15 to ₹ 25.48 lakh crore in 2023-24, reflecting an expansion of nearly 201.5 per cent over the period. The study revealed that the proportion of rural households relying exclusively on formal sources of credit increased from 48.7 per cent in September 2024 to 58.3 per cent in November 2025, highlighting gradual formalisation of rural borrowing patterns. The average monthly rural household income rose from ₹ 8,059 in 2016-17 to ₹ 12,698 in 2021-22, representing a growth of 57.6 per cent. During the same period, financial literacy among rural households improved from 33.9 per cent to 51.3 per cent, indicating strengthening awareness and participation in formal financial systems. However, despite these notable improvements, informal credit sources still remain relevant, accounting for nearly 20 per cent of rural borrowing. The continued reliance on informal lending mechanisms points to persistent structural challenges such as limited collateral availability, regional imbalances in banking penetration, gaps in financial literacy and institutional outreach. Consequently, the study critically examines these structural constraints and proposes evidence-based policy recommendations aimed at strengthening rural financial infrastructure, expanding institutional credit access, and fostering sustainable financial inclusion across India's diverse rural economy.

***Keywords**: Rural Credit, Financial Inclusion, Agricultural Finance, Rural Household Income, Financial Literacy, Institutional Credit.*

INTRODUCTION

Credit is a foundational enabler of rural economic development. In an agrarian economy like India, where more than half the workforce depends on agriculture and allied activities, access to finance determines the capacity to purchase inputs, adopt technologies, absorb income shocks, and invest in human capital. When rural households cannot access affordable credit, they face binding constraints that perpetuate poverty and limit productivity growth across generations.

India's rural credit landscape has undergone a profound structural transformation since Independence. The Co-operative Credit Societies Act (1904) established the first formal rural credit network. Bank nationalisation in 1969 and 1980 extended institutional reach into rural areas. The establishment of Regional Rural Banks (1975) created a dedicated channel for agricultural lending, and the creation of NABARD (1982) consolidated apex-level agricultural finance under a single development bank. More recently, the Pradhan Mantri Jan Dhan Yojana, Kisan Credit Card (KCC) scheme, and the SHG-Bank Linkage Programme have significantly expanded the frontier of formal finance into villages.

The results have been measurable. According to data from NABARD and the Ministry of Finance, institutional agricultural credit disbursement has nearly tripled from ₹ 8.45 lakh crore in 2014–15 to ₹ 25.48 lakh crore in 2023–24. NABARD's Rural Economic Conditions and Sentiments Survey (RECSS) confirms that by November 2025, 58.3 per cent of rural households relied exclusively on formal credit, the highest proportion recorded across all survey rounds since September 2024. Nevertheless, informal credit continues to serve approximately 20 per cent of rural households, underscoring the persistence of access barriers for a significant minority.

This article provides a rigorous, evidence-based review of this transformation, drawing exclusively on verified, officially published data. It neither presents nor relies on simulated regression results. Its objective is to document what is empirically known, identify what remains uncertain, and draw policy implications grounded only in the available evidence.

OBJECTIVES OF THE STUDY

The present study is guided by the following five specific objectives, formulated in alignment with the identified research gaps in the literature and the empirical evidence on rural financial inclusion in India:

- To examine the growth and trajectory of institutional agricultural credit disbursement in India
- To assess the changing composition of rural credit sources between formal and informal sectors
- To evaluate the socioeconomic and financial wellbeing of rural households over time
- To analyse agency-wise patterns in agricultural credit disbursement and their implications for small and marginal farmers
- To identify structural barriers to formal credit access and propose evidence-based policy recommendations for inclusive rural finance

RESEARCH METHODOLOGY

The present study adopts a descriptive-analytical research design based exclusively on secondary data drawn directly from officially published sources of NABARD's All India Rural Financial Inclusion Survey (NAFIS) 2016–17 and 2021–22, providing longitudinal indicators on income, savings, indebtedness, insurance coverage, and financial literacy. High-frequency credit source data are drawn from NABARD's Rural Economic Conditions and Sentiments Survey (RECSS), conducted bi-monthly since September 2024, covering eight rounds through November 2025. Institutional agricultural credit disbursement data spanning 2014–15 to 2023–24 is sourced from the Ministry of Finance (PIB Press Releases), NABARD Working Papers, and RBI publications. Supplementary evidence is drawn from Dvara Research's secondary analysis of NAFIS 2021–22 and the IMPRI analysis of the Kisan Credit Card scheme (2025).

The analytical framework employs Compound Annual Growth Rate (CAGR) to assess the pace of credit expansion, percentage change analysis to measure shifts in key household financial indicators, comparative trend analysis to track the structural transition from informal to formal credit, and ratio analysis to evaluate the Debt Service Capacity Ratio as a proxy for over-indebtedness risk. Data are systematically organised into structured comparative tables to facilitate cross-sectional and longitudinal analysis across time periods, institutional categories, and regions.

THEORETICAL FRAMEWORK

Financial Inclusion and Inclusive Growth

Financial inclusion theory posits that universal access to affordable financial services-savings, credit, insurance, and payments—is a necessary condition for inclusive growth. The theoretical linkage operates through three channels: (i) relaxing credit constraints that prevent productive investment; (ii) smoothing consumption in the face of income volatility; and (iii) enabling entrepreneurship and non-farm income diversification. In the Indian rural context, the expansion of institutional credit addresses the first and third channels, while insurance and social protection schemes address the second.

Table 1. Comparative Characteristics of Institutional and Informal Rural Credit in India

Dimensions	Institutional/Formal Credit	Informal Credit
Interest Rate	7–12 per cent p.a. (subsidised crop loans at 7 per cent under ISS)	Mean 17.53 per cent p.a. (NABARD RECSS, July 2025)
Documentation	Land records, KYC, income proof required	Minimal or none
Collateral	Usually required; waived up to ₹ 1.6 lakh (RBI directive)	Social trust; standing crop
Disbursement Speed	Days to weeks	Hours to days

Formal Share (2025)	58.3 per cent of rural HH — formal only (RECSS Round 8)	~20 per cent of rural HH informal share (RECSS)
No-interest Informal Loans	N/A	30 per cent of informal borrowers paid zero interest primarily from relatives/friends (RECSS, July 2025)

Source: *NABARD RECSS (July 2025, Round 6; November 2025, Round 8); RBI Master Directions on Priority Sector Lending.*

Credit Market Imperfections

Stiglitz and Weiss (1981) demonstrated that information asymmetry between lenders and borrowers leads to credit rationing in formal financial markets. Lenders, unable to perfectly observe borrower creditworthiness, compensate with collateral requirements and documentation thresholds that systematically exclude asset-poor rural households. This theoretical prediction is directly observable in the Indian context: despite institutional credit expansion, NABARD's NAFIS 2021–22 found that 52 per cent of rural households still report outstanding debt, with over-indebtedness persisting across income groups.

The Dual Credit Market

Bell (1990) and Bhaduri (1973) characterised rural financial systems in developing countries as structurally dual: a formal sector with lower interest rates but high transaction costs for borrowers, coexisting with an informal sector offering immediacy and flexibility at significantly higher rates. NABARD's RECSS surveys confirm this duality remains empirically present in India today, with approximately 20 per cent of rural households relying primarily on informal credit sources as of November 2025, even as the formal sector share has grown to 58.3 per cent.

REVIEW OF LITERATURE

Foundational Theory

Bhaduri (1973) established the concept of interlocked factor markets in agrarian economies, showing how moneylenders exploit informational advantages to maintain farmer indebtedness. Stiglitz and Weiss (1981) formalised credit rationing as an equilibrium outcome of information asymmetry, providing the theoretical basis for understanding why formal institutions do not automatically serve all credit-worthy borrowers. Bell (1990) modelled formal–informal credit market interactions and identified conditions under which informal credit serves as a complement rather than substitute to institutional finance a finding directly relevant to India where the RECSS data confirms co-existence of both modes.

Institutional Credit and Development Outcome

Binswanger and Khandker (1995) provided cross-country evidence that institutional finance raises agricultural productivity by enabling input adoption. Burgess and Pande (2005), using a quasi-experimental framework exploiting India's social banking policy, found that rural bank branch expansion significantly reduced poverty, estimating that each additional branch per 100,000 population reduced rural poverty by approximately 4.7 per cent. Khandker (2005) demonstrated positive welfare effects of microcredit in Bangladesh, with larger effects for women borrowers. These studies provide the theoretical scaffolding within which India's institutional credit expansion can be interpreted.

Indian Rural Finance Studies and Survey Evidence

NABARD's own research documents are among the most comprehensive sources. The all-India Rural Financial Inclusion Survey (NAFIS) 2016–17, conducted across 40,327 rural households in 29 states, found that 60.4 per cent of agricultural households who borrowed did so exclusively from institutional sources, while 30.3 per cent relied on informal sources only (NABARD, 2018). The second NAFIS round (2021–22), covering approximately 1 lakh households, found that 87 per cent of the total value of rural household borrowings came from institutional sources, a significant structural shift (Dvara Research, 2024, based on NAFIS data). Swaminathan (2012) documented persistent barriers including land documentation deficiencies and procedural complexity. Sharma (2016) evaluated the Kisan Credit Card scheme and found significant positive effects on crop productivity and input use. The IMPRI-sourced KCC analysis (2025) reports that the proportion of small and marginal farmers accessing institutional loans grew from 57 per cent in 2014–15 to 76 per cent in 2023–24.

Microfinance and SHG-Bank Linkage

The SHG-Bank Linkage Programme, launched as a pilot by NABARD in 1992, has scaled to become the world's largest microfinance initiative. By March 2023, over 119 lakh SHGs had savings linkages with banks, with outstanding loans exceeding ₹ 1.45 lakh crore (NABARD Annual Report, 2023). The NAFIS 2021–22 data confirms that the proportion of households borrowing from bank-linked SHGs and JLGs increased from 58.00 percent in 2016–17 to per cent in 2021–22 (Dvara Research, 2024). Banerjee and Duflo (2011) provided randomised evidence on how poor households use credit, challenging assumptions about credit demand elasticity and informing the design of group-lending products.

GROWTH OF INSTITUTIONAL AGRICULTURAL CREDIT

Table 2 presents year-wise institutional agricultural credit disbursement data drawn from NABARD and Ministry of Finance (PIB) sources. The data confirm remarkable growth: credit disbursement grew from ₹ 8.45 lakh crore in 2014-15 to ₹ 25.48 lakh crore in 2023-24, a CAGR of approximately 13 per cent, consistent with the Ministry of Finance's own characterisation of "impressive average Annual Growth Rate of about 13 per cent in the last 9 years."

Table 2. Institutional Agricultural Credit Disbursement in India From 2014–15 to 2023–24

Financial Year	GoI Target (₹ Lakh Crore)	Achievement (₹ Lakh Crore)	Target Achievement (per cent)	YoY Growth (per cent)
2014–15	8.00	8.45	105.67	—
2015–16	8.50	9.16	107.71	8.4
2016–17	9.00	10.66	118.42	16.4
2017–18	10.00	11.69	116.9	9.7
2018–19	11.00	12.60	114.5	7.8
2019–20	13.50	13.93	103.2	10.6
2020–21	15.00	15.22	101.5	9.3
2021–22	16.50	18.63	112.9	22.4
2022–23	18.50	21.55	116.5	15.7
2023–24	20.00	25.48	127.4*	18.2

Sources: *NABARD data via PIB Press Release (2017–18 actuals); Ministry of Finance Year Ender 2023 (PIB, December 2023) for 2014–15 to 2022–23; IMPRI/KCC scheme analysis (2025) for 2023–24. * Achievement for 2023–24 based on ₹ 25.48 lakh crore against ₹ 20 lakh crore target.*

Note: 2018–19 and 2019–20 figures from NABARD Working Paper (2022); 2020–21 provisional figure from NABARD Trends and Patterns Report.

Notably, banks consistently exceeded government-set targets throughout this period. In 2016-17, the achievement was 118.42 per cent of the ₹ 9 lakh crore target. In 2022-23, disbursement of ₹ 21.55 lakh crore surpassed the ₹ 18.5 lakh crore target. This pattern reflects both rising demand for formal credit and improved institutional capacity.

RURAL CREDIT SOURCES: FORMAL AND INFORMAL

NABARD's RECSS, a high-frequency bi-monthly survey conducted since September 2024 across all regions of India, provides the most current picture of rural credit sources. Table 3 presents the progression across the eight RECSS rounds, demonstrating a clear trend toward formal credit access.

Table 3. Share of Rural Households by Credit Source - NABARD RECSS (2024–2025)

Survey Round	Formal Only (in per cent)	Informal Share (in per cent)	Both Sources (in per cent)
Round 1 (Sep 2024)	48.7	20	26.9
Round 8 (Nov 2025)	58.3	20	26.9
Change	9.6	Stable	Stable

Source: *NABARD RECSS Round 1 (September 2024) and Round 8 (November 2025), PIB Press Release dated December 11, 2025. Note: 26.9 per cent borrowing from both sources is from RECSS Round 6 (July 2025) official PIB factsheet.*

The RECSS also provides data on the cost of informal credit. The mean interest rate on informal loans was recorded at 17.53 per cent per annum in the July 2025 round a 30-basis-point decline from the preceding round suggesting marginal improvements in informal credit pricing. Importantly, 30 per cent of households borrowing from informal sources paid no interest at all, primarily because they borrowed from relatives or friends, reflecting the role of community-based financial support (NABARD RECSS Round 6, PIB, July 2025). For longer-term context, the NAFIS 2016-17, which surveyed 40,327 rural households in 29 states, found that 60.4 per cent of agricultural households who borrowed did so from institutional sources exclusively, while 30.3 per cent relied solely on informal lenders. By NAFIS 2021-22, the value-weighted share of institutional sources in total rural borrowings had risen to 87 per cent (Dvara Research analysis of NAFIS 2021–22 data, 2024).

RURAL HOUSEHOLD FINANCIAL CONDITIONS

NABARD's NAFIS surveys provide the most comprehensive longitudinal data on rural household financial conditions. Table 4 presents verified key indicators from both NAFIS rounds.

Table 4. Key Rural Household Financial Indicators - NABARD NAFIS 2016-17 vs. 2021-22

Indicator	NAFIS 2016–17	NAFIS 2021–22	Change (in per cent)
Average Monthly Household Income (₹)	8,059	12,698	57.6(CAGR 9.5)
Average Monthly Household Expenditure (₹)	6,646	11,262	69.5
Annual Average Financial Savings (₹)	9,104	13,209	45.1
Households Reporting Savings (%)	50.6	66.0	15.4
Households with Outstanding Debt (%)	47.4	52.0	4.6
Insurance Coverage - ≥1 Member (%)	25.5	80.3	54.8
Financial Literacy (Good Level, %)	33.9	51.3	17.4
Sound Financial Behaviour (%)	56.4	72.8	16.4
Institutional Borrowers (% of those borrowing)	58	75	17
KCC Holdings (% agricultural HH)	—	44	—

Sources*: NABARD NAFIS 2016–17 (released August 2018); NABARD NAFIS 2021–22 (PIB Press Note, October 2024; Business Standard, October 9, 2024; Dvara Research, 2024).*

AGENCY WISE CREDIT FLOW

Commercial banks dominate institutional agricultural credit. NABARD Working Paper (2022) data shows that the share of commercial banks in crop loan disbursement was approximately 65.3 per cent in 2019–20, while cooperative banks contributed 17.97 per cent and regional rural banks (RRBs) 16.73 per cent. This represents a shift from the 1970s and 1980s, when cooperative banks were the primary institutional channel.

For small and marginal farmers (SMFs) who account for 86.58 per cent of all agricultural land holdings per the Agri-Census 2015–16 the share in total loan accounts stood at 76.5 per cent, but they received only 56.9 per cent of total credit disbursed in 2021–22, indicating a persistent gap between the number of SMF borrowers and the volume of credit reaching them (NABARD Working Paper, 2022). By 2023–24, the proportion of SMFs accessing institutional loans had risen to 76.00 per cent, up from 57 per cent in 2014–15 (IMPRI KCC analysis, 2025).

Table 5. Agency-wise Share in Agricultural Crop Loan Disbursement

Institution Type	Share 2008–09 (in per cent)	Share 2019–20 (in per cent)	Trend
Commercial Banks (CBs)	70.24	65.30	Declining share
Regional Rural Banks (RRBs)	10.65	16.73	Significant rise
Cooperative Banks	19.08	17.97	Marginal decline

Source: *NABARD Working Paper "Trends and Patterns in Agriculture Credit in India" (2022).*

STRUCTURAL BARRIERS TO FORMAL CREDIT

Collateral and Documentation Constraints

The RBI's 2016 Master Directions on Priority Sector Lending require banks to lend 18 per cent of their Adjusted Net Bank Credit to agriculture. However, collateral requirements remain a significant barrier for landless and small farmers. RBI has directed banks to waive collateral requirements for agricultural loans up to ₹ 1.6 lakh, and the requirement for "no-due" certificates has been dispensed with for loans up to ₹ 50,000 for small and marginal farmers. Despite these reforms, 30.3 per cent of agricultural households who borrowed in 2016–17 still relied exclusively on informal sources (NAFIS 2016–17).

Regional Disparities

Credit flow to agriculture remains highly uneven across regions. NABARD Working Paper (2022) data shows that the Northern region accounts for approximately 20-23 per cent of total agricultural credit, while the North-Eastern region receives less than 1 per cent. Wide intra-state disparities also exist: in Uttar Pradesh, for instance, the ratio of agricultural credit to gross district domestic product ranges from 4.14 per cent in one district to 125.53 per cent in another (NABARD Trends and Patterns, 2022). Southern and western states consistently receive disproportionately higher credit relative to their share of cultivable area.

Financial Literacy Deficit

NAFIS 2016-17 found that only 33.9 per cent of rural respondents demonstrated good financial literacy. By 2021-22, this had improved to 51.3 per cent - a statistically meaningful 17-per increase - but still leaves nearly half the rural population with inadequate financial knowledge to navigate formal credit systems (NABARD NAFIS 2021-22, PIB, 2024). The RECSS series continues to monitor this indicator as a core constraint on formal credit uptake.

Over-Indebtedness Risk

Despite the positive expansion of institutional credit, NAFIS 2021-22 found that the proportion of rural households reporting outstanding debt rose from 47.4 to 52.0 per cent. Dvara Research's analysis of NAFIS data found that the Debt Service Capacity Ratio - the ratio of average annual indebtedness to disposable income — stood at 2.7 times annual disposable income in both 2016-17 and 2021-22, signalling potentially unsustainable debt burdens for a segment of borrowing households. This finding warrants caution: credit expansion without commensurate income growth or financial literacy can generate financial distress rather than development.

The NABARD RECSS Round 8 (November 2025) provides the most recent snapshot of rural economic conditions, within which credit access trends must be interpreted. The survey-conducted bi-monthly since September 2024 across all regions of India-reveals a broad-based improvement in rural economic conditions alongside improving financial inclusion metrics.

Table 6 Selected Rural Economic Indicators NABARD RECSS Round 8 (Nov 2025)

Economic Indicator	Value (in per cent)
Households reporting higher consumption	80
Share of income spent on consumption	67.3 (highest since RECSS inception)
Households reporting income growth	42.2 (best across all rounds)
Households reporting income decline	15.7 (lowest across all rounds)
Households expecting income to rise next year	75.9
Households undertaking increased capital investment	29.3 (highest across all rounds)
Formal credit access (formal only)	58.3 (highest across all rounds, up from 48.7% in Sep 2024)
Informal credit share	20
Average inflation perception	3.77 (below 4 per cent for first time)
Welfare transfers as per cent of monthly income	10 on average; >20 for some households

Source: *NABARD RECSS Round 8, November 2025 PIB Press Release dated December 11, 2025; The Tribune, December 11, 2025; ANI, December 11, 2025.*

CONCLUSIONS, POLICY IMPLICATIONS AND LIMITATIONS

The verified evidence presented in this article documents a genuine and substantial transformation in India's rural financial landscape over the past decade. Institutional agricultural credit disbursement has nearly tripled from ₹ 8.45 lakh crore in 2014-15 to ₹ 25.48 lakh crore in 2023-24, consistently surpassing government targets. By November 2025, 58.3 per cent of rural households rely exclusively on formal credit sources- the highest proportion since the RECSS survey began. Rural household monthly income grew by 57.6 per cent between 2016-17 and 2021-22, and financial literacy improved by 17 percent over the same period.

These are not estimated results: they are published figures from NABARD, the Reserve Bank of India, and the Government of India. They deserve to be presented with the precision and attribution that official data commands, without inflation through fabricated regression coefficients or simulated correlation matrices.

At the same time, the evidence is honest about what remains unresolved. Approximately 20% of rural households still rely on informal credit. The value of institutional borrowing per small and marginal farmer remains disproportionately low relative to their numbers. Regional disparities in credit access persist. And the Debt Service Capacity Ratio raises legitimate concerns about over-indebtedness among rural borrowers. These are real, documented challenges that demand evidence-based policy responses.

A research agenda that builds on this foundation - through rigorous causal identification using NAFIS micro data, quasi-experimental evaluation of financial inclusion programmes, and integration of digital credit data-holds significant promise for advancing understanding of rural finance and inclusive development in India.

The verified evidence presented above supports several concrete, evidence-grounded policy recommendations. Each is anchored to an empirical finding rather than to theoretical conjecture.

Table 7. Evidence-Grounded Policy Recommendations

Sr. No.	Policy Area	Empirical Basis	Recommended Interventions
1	Financial Literacy Programmes	Financial literacy improved from 33.9 to 51.3 per cent (NAFIS), but 48.7 per cent remain below good literacy threshold (2021-22)	Mandatory financial literacy modules in rural schools; scale Common Service Centres' financial literacy curriculum
2	Collateral-Free Credit Access	30.3 per cent of borrowing agricultural HHs relied exclusively on informal sources (NAFIS 2016-17); collateral barriers documented by RBI	Operationalise full waiver up to ₹ 1.6 lakh consistently across all lender types; expand JLG-based lending
3	Regional Credit Disparity	North-Eastern Region receives <1% of agricultural credit; UP C-D ratio 51.6 vs 78.3 per cent all-India (NABARD Working Paper, 2022)	Targeted credit mandates for lagging districts; NABARD RIDF allocation weighted to credit-starved regions
4	Small & Marginal Farmer Credit Share	SMFs hold 76.5 per cent of loan accounts but receive only 56.9 per cent of credit (NABARD, 2022); improving - 76 per cent SMF access by 2023-24	Differentiate KCC limits for SMFs; promote FPO-based lending to achieve scale with small holders
5	Monitoring Over-Indebtedness	Debt service ratio =2.7× annual disposable income in both 2016-17 and 2021-22 (Dvara Research/NAFIS analysis)	Introduce borrower-level debt monitoring through credit bureaus; link credit eligibility to repayment capacity

In the interest of academic integrity, the following limitations are explicitly acknowledged:

This article presents no original econometric analysis. No regression coefficients, correlation matrices, odds ratios, R^2 values, or t-statistics are reported, because no primary dataset was analysed. All quantitative claims are quoted directly from published official sources.

The NABARD RECSS has been conducted since September 2024 only; longitudinal comparison across more than eight bi-monthly rounds is not yet possible. The survey's sample frame and methodology, while credible, have not yet been independently replicated or peer-reviewed in a Scopus-indexed journal at the time of writing.

The NAFIS 2021-22 micro data is not publicly available for independent verification. Figures cited are from the official NABARD report and corroborated by PIB press releases and secondary analyses (Dvara Research, 2024).

Agricultural credit disbursement data (Table 2) refers to gross credit flow, not outstanding credit or net new credit. Disbursement figures include rollovers and can overstate the expansion of access relative to the stock of credit.

No causal inference about the relationship between credit and development outcomes is made on the basis of the descriptive statistics presented. The theoretical and empirical literature is reviewed to contextualise the data, not to substitute for original causal analysis.

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