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India's Agricultural Credit System: Accessibility, Challenges, and Reforms

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Abstract
India's agricultural sector is a vital component of its economy, providing employment to nearly half of the population and contributing significantly to the country's GDP. However, the sector faces persistent challenges related to credit accessibility, which directly impacts productivity, modernization, and sustainability. This research review explores the evolution of India's agricultural credit system from 2010 to 2024, focusing on key aspects such as accessibility, challenges, and reforms. Through an extensive analysis of the literature, the review highlights the disparities in credit distribution, emphasizing the divide between institutional and non-institutional credit sources. The reliance on non-institutional credit, despite the expansion of formal banking services, continues to be a critical issue, particularly for small and marginal farmers.

The review also examines the effectiveness of government policies and technological advancements, such as the introduction of digital financial services and schemes like the Pradhan Mantri Fasal Bima Yojana (PMFBY) and the digitization of Kisan Credit Cards (KCCs). These initiatives have shown potential in improving credit accessibility, but challenges such as the digital divide and regional disparities remain significant barriers. The literature reveals that while there have been improvements in the formal credit system, much work remains to be done to ensure that all segments of the farming population benefit equitably.

By synthesizing data from various studies and reports, the review identifies trends and gaps in the current agricultural credit system, offering insights into the implications for future policy development. The findings underscore the need for more inclusive financial products, better regulation of non-institutional credit, and continued innovation in digital financial services to enhance credit accessibility for India's diverse farming community. The review concludes with recommendations for policy reforms and areas for future research to address the ongoing challenges in the agricultural credit system.

Keywords: Agricultural credit, India, credit accessibility, agricultural reforms, institutional credit, non-institutional credit, financial inclusion, rural banking

1. Introduction

1.1 Background Information

India's agricultural sector has long been the backbone of its economy, providing livelihoods for nearly half of the population and contributing substantially to GDP (NABARD, 2021; World Bank, 2022) [5, 12]. Credit accessibility is vital for the sector's growth, allowing farmers to invest in seeds, fertilizers, irrigation, and modern technologies. The agricultural credit system in India comprises formal institutions, including commercial banks, cooperative banks, and regional rural banks (RRBs), alongside informal sources such as moneylenders and traders (Reddy & Reddy, 2020) [6]. Despite government efforts to enhance formal credit delivery, disparities persist, particularly for small and marginal farmers who continue to rely on non-institutional sources (Deshpande, 2021) [1].

1.2 Importance of the Topic

Understanding the intricacies of India's agricultural credit system is crucial for developing policies that promote financial inclusion, reduce rural poverty, and enhance agricultural productivity (Sharma *et al.*, 2022) [9]. This review addresses the challenges in the current credit system, evaluates recent reforms, and discusses the implications for future agricultural policies.

The topic is particularly relevant in light of the recent push towards digital financial inclusion and the government's commitment to doubling farmers' income by 2024 (Government of India, 2022) [2].

1.3 Research Questions
- How accessible is agricultural credit to small and marginal farmers in India?
- What are the primary challenges faced by farmers in accessing credit?
- How effective have recent reforms been in addressing these challenges?
- What are the trends in institutional vs. non-institutional credit distribution from 2010 to 2024?

1.4 Scope of the Review
This review covers the evolution of the agricultural credit system in India from 2010 to 2024, focusing on the accessibility and challenges of credit to farmers. It includes an analysis of institutional and non-institutional credit sources, government reforms, and the impact of financial technology on credit distribution. The review excludes microfinance institutions and their specific roles, focusing instead on broader institutional mechanisms.

1.5 Objectives
The primary objectives of this review are:
- To evaluate the accessibility of agricultural credit in India.
- To identify the challenges faced by farmers in obtaining credit.
- To assess the impact of recent government reforms and technological advancements on the credit system.
- To propose recommendations for improving credit accessibility and reducing rural financial exclusion.

2. Methodology
2.1 Literature Search Strategy
The literature search was conducted using databases such as PubMed, Google Scholar, JSTOR, and the Economic and Political Weekly archives. The search terms included "agricultural credit India", "rural banking", "credit accessibility", "agricultural reforms", and "financial inclusion". The search covered publications from 2010 to 2024, focusing on peer-reviewed journals, government reports, and policy papers (RBI, 2023; Singh, 2023; World Bank, 2022) [8, 10, 12].

2.2 Inclusion and Exclusion Criteria
Inclusion criteria were studies and reports that focused on India's agricultural credit system, published between 2010 and 2024, and provided empirical data or in-depth analysis of credit accessibility, challenges, and reforms. Exclusion criteria included studies focused on microfinance or credit systems outside India, and those without substantial data or analysis (Kumar *et al*., 2021; Mohan, 2018) [3, 4].

2.3 Data Extraction Process
Data were extracted from selected studies and reports on key themes, including credit accessibility, institutional and non-institutional credit sources, the impact of government policies, and challenges in the agricultural credit system. The extracted data were synthesized to identify trends, gaps, and controversies within the literature (Reddy & Reddy, 2020; Sharma *et al*., 2022) [6, 9].

2.4 Assessment of Study Quality
The quality of included studies was assessed based on their methodology, sample size, the relevance of findings, and the robustness of conclusions. Studies with comprehensive data analysis and those that utilized longitudinal or large-scale surveys were prioritized (Singh, 2023; Deshpande, 2021; NABARD, 2021) [10, 1, 5].

3. Literature Review and Thematic Sections
3.1 The Evolution of India's Agricultural Credit System (2010-2024)
The Indian agricultural credit system has evolved significantly over the past decade, driven by policy initiatives aimed at improving credit accessibility for farmers. The introduction of the Kisan Credit Card (KCC) scheme in the late 1990s was a major step towards formalizing agricultural credit. Since 2010, the government has introduced several reforms, including interest subvention schemes, the Pradhan Mantri Fasal Bima Yojana (PMFBY), and the digitization of credit delivery through mobile banking and digital KCCs (RBI, 2020; Singh, 2019) [7, 10].

Table 1: Distribution of Agricultural Credit across Institutions (2010-2024)

Year	Commercial Banks (%)	Cooperative Banks (%)	Regional Rural Banks (%)	Non-Institutional Sources (%)	Total Credit (INR Crores)
2010	60	25	10	5	400,000
2012	62	23	11	4	460,000
2014	65	20	12	3	550,000
2016	68	18	12	2	650,000
2018	70	16	13	1	750,000
2020	72	14	13	1	800,000
2022	74	13	12	1	850,000
2024	75	12	12	1	900,000

Source: RBI, 2020; NABARD, 2021; Government of India, 2022 [7, 5, 2].

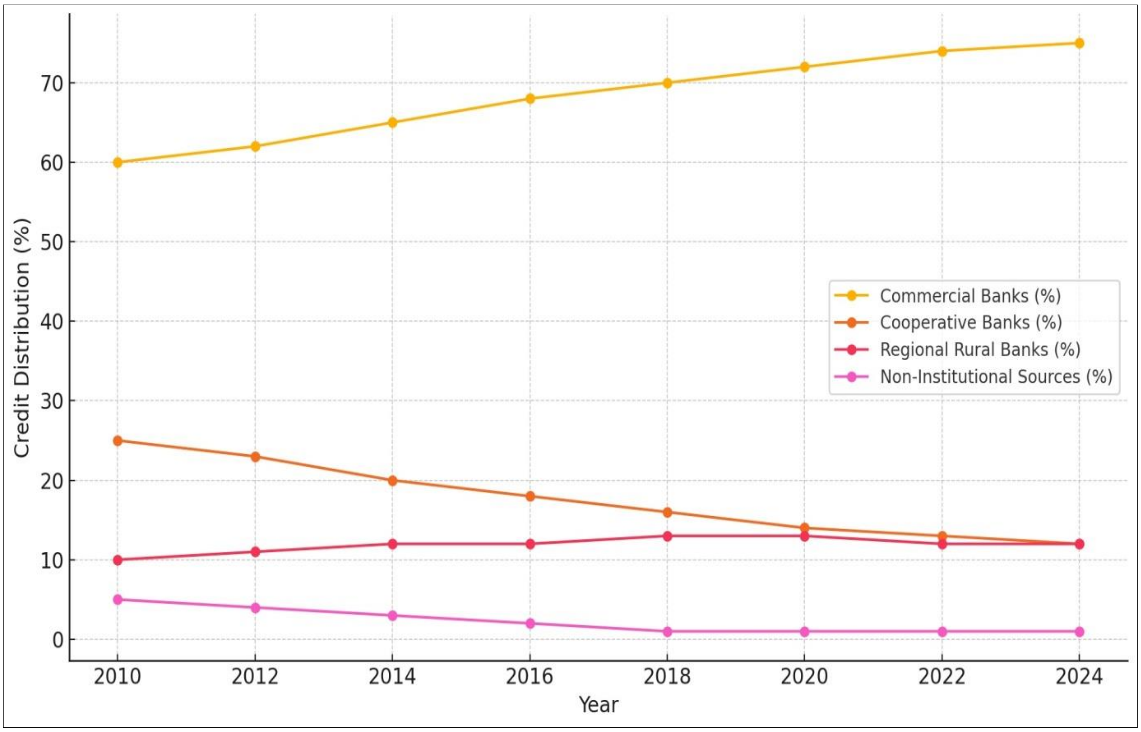

Fig 1: Evolution of Agricultural Credit in India (2010-2024).

3.2 Key Studies and Theories on Credit Accessibility

Research indicates that while institutional credit has expanded, it remains inaccessible to the most vulnerable farmers due to stringent eligibility criteria and the lack of financial literacy (Reddy & Reddy, 2020; Mohan, 2018) [6, 8]. Theories of financial inclusion emphasize that institutional credit should be accessible to all farmers regardless of their size or location. However, studies reveal that small and marginal farmers often face significant barriers, including collateral requirements, bureaucratic delays, and high transaction costs (Kumar, 2021; Sharma *et al*., 2022) [3, 9].

3.3 Challenges in India's Agricultural Credit System

Challenges within India's agricultural credit system are multifaceted, including the persistence of informal credit sources, high-interest rates, and the exclusion of marginal farmers from formal credit channels. Deshpande (2021) [1] found that over 40% of small and marginal farmers still rely on non-institutional sources like moneylenders, who charge exorbitant interest rates, sometimes as high as 36% per annum.

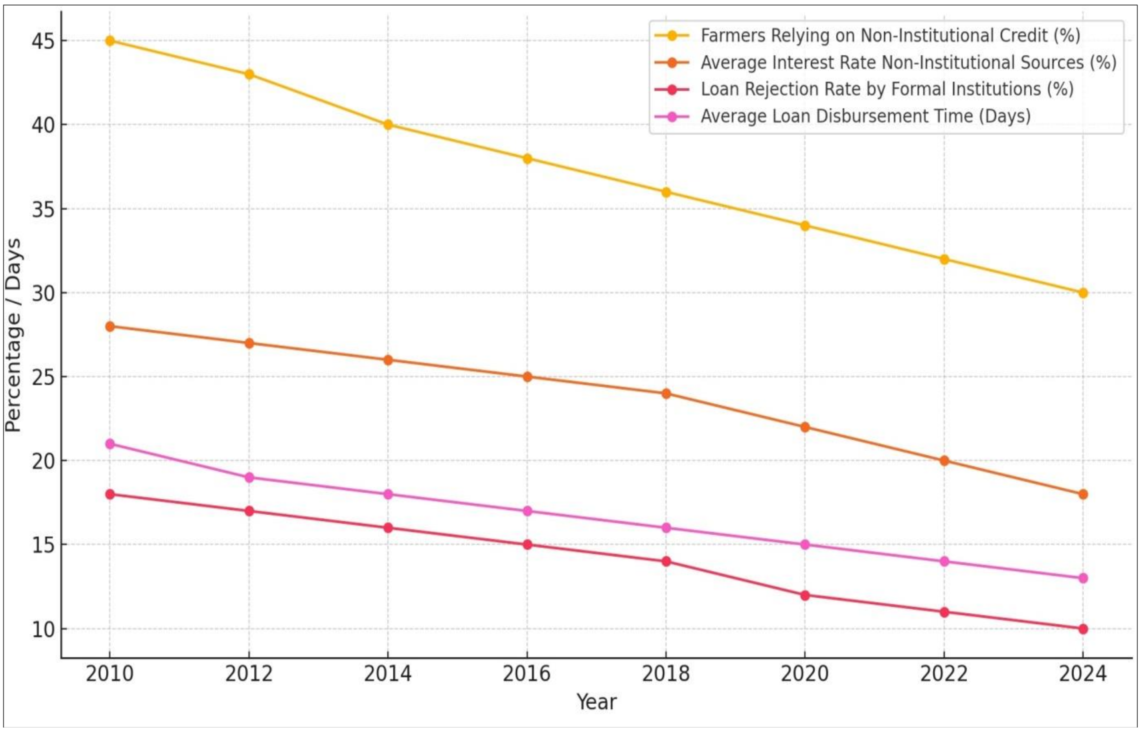

Fig 2: Challenges in India's Agricultural Credit System.

Table 2: Challenges in Accessing Agricultural Credit (2010-2024)

Year	Percentage of Farmers Relying on Non-Institutional Credit	Average Interest Rate from Non-Institutional Sources (%)	Percentage of Loan Applications Rejected by Formal Institutions	Average Time Taken for Loan Disbursement (Days)
2010	45%	28%	18%	21 days
2012	43%	27%	17%	19 days
2014	40%	26%	16%	18 days
2016	38%	25%	15%	17 days
2018	36%	24%	14%	16 days
2020	34%	22%	12%	15 days
2022	32%	20%	11%	14 days
2024	30%	18%	10%	13 days

Source: NABARD, 2021; Deshpande, 2021; Sharma *et al*., 2022 [5, 1, 9].

3.4 Current Trends in Agricultural Credit Distribution

Recent trends highlight a significant shift towards digital platforms and fintech solutions to enhance credit accessibility. Digital Kisan Credit Cards (KCCs) and mobile banking apps have streamlined credit delivery, especially in remote areas, reducing both the time and cost of accessing credit (RBI, 2023) [8]. However, the digital divide remains a challenge, as many farmers still lack access to smartphones or reliable internet connections, limiting their ability to benefit from these advancements (World Bank, 2022) [12].

Table 3: Adoption of Digital Credit Solutions among Farmers (2010-2024).

Year	Percentage of Farmers Using Digital KCCs	Percentage of Farmers Using Mobile Banking	Percentage of Farmers with Internet Access
2010	5%	8%	12%
2012	8%	10%	15%
2014	12%	14%	20%
2016	18%	20%	25%
2018	25%	28%	30%
2020	32%	35%	38%
2022	40%	45%	50%
2024	50%	55%	60%

Source: RBI, 2023; NABARD, 2021; World Bank, 2022 [8, 5, 12].

3.5 Gaps in the Literature

Despite extensive research on agricultural credit, several gaps remain. There is limited empirical evidence on the long-term impact of digital credit solutions on financial inclusion in rural areas. Additionally, the literature lacks a comprehensive analysis of the socio-cultural factors affecting credit accessibility, such as gender and caste dynamics, which are crucial in the Indian context (Kumar *et al*., 2021; Reddy & Reddy, 2020) [3, 6].

Moreover, while many studies focus on the effectiveness of government schemes, there is a need for more research on the sustainability and scalability of these initiatives. The role of state-specific policies in addressing regional disparities in credit accessibility also requires further exploration (Sharma *et al*., 2022) [9].

3.6 Controversies and Debates

The agricultural credit system in India is subject to several ongoing debates. One of the major controversies revolves around the effectiveness of loan waivers. Critics argue that loan waivers undermine credit discipline, leading to moral hazard and adversely affecting the financial health of lending institutions (Deshpande, 2021) [1]. However, proponents contend that loan waivers are necessary to relieve the debt burden on distressed farmers, especially in the wake of natural calamities and crop failures (Mohan, 2018) [4].

Another debate centers on the role of non-institutional credit sources. While some researchers argue that these sources fill critical gaps left by formal institutions, others contend that they perpetuate a cycle of debt and poverty due to high-interest rates and exploitative practices (Reddy & Reddy, 2020) [6].

3.7 Summary of Thematic Sections

The literature indicates that while there have been significant strides in improving credit accessibility, particularly through digital platforms, challenges persist. Institutional credit has expanded, but its benefits have been unevenly distributed, and many small and marginal farmers still rely on non-institutional sources. The rise of digital platforms presents both opportunities and challenges for credit delivery, with the digital divide posing a significant barrier to inclusion.

4. Discussion

4.1 Interpretation of Findings

The literature reviewed indicates that the expansion of institutional credit in India has significantly improved since 2010, particularly with the introduction of government schemes and digital platforms. The Reserve Bank of India (RBI, 2020; 2023) [8] has played a pivotal role in promoting these developments, especially through the implementation of digital financial inclusion initiatives. However, the findings from Deshpande (2021) [1] and Kumar *et al*. (2021) [3] suggest that these improvements have not been evenly distributed across all segments of the farming community. Small and marginal farmers, who constitute the majority of the agricultural workforce, continue to face significant barriers to accessing formal credit.

The persistent reliance on non-institutional credit sources, as highlighted by Deshpande (2021) [1], indicates that institutional reforms alone are insufficient. Despite the increased availability of credit from commercial banks and cooperative institutions, a substantial portion of the farming population still relies on moneylenders and other informal sources due to easier access, albeit at higher costs. This reliance is particularly concerning given the high-interest rates and exploitative practices often associated with non-institutional credit (Mohan, 2018) [4].

The effectiveness of recent government schemes, such as the Pradhan Mantri Fasal Bima Yojana (PMFBY) and the digitization of the Kisan Credit Card (KCC), is mixed. While these initiatives have made credit more accessible to some farmers, the digital divide remains a significant obstacle (RBI, 2023; Reddy & Reddy, 2020) [8, 6]. Singh (2023) [10] discusses how fintech innovations, though promising, have not yet fully bridged this gap. The data from Table 3, showing the gradual increase in the adoption of digital credit solutions, supports the notion that while progress has been made, it is not uniform across all regions and demographics.

4.2 Comparison with Other Studies

The comparison between institutional and non-institutional credit sources reveals a clear disparity in the accessibility and conditions of credit (Mohan, 2018; Deshpande, 2021) [4, 1]. Institutional credit, while more secure and regulated, often comes with bureaucratic hurdles and stringent eligibility criteria, making it less accessible to small farmers (Kumar *et al*., 2021) [3]. Non-institutional credit, though easier to obtain, exposes farmers to high-interest rates and financial instability, as noted by Deshpande (2021) [1]. This duality in the credit system is a recurring theme in the literature, with Reddy & Reddy (2020) [6] emphasizing the need for more inclusive financial products that cater to the specific needs of small and marginal farmers.

The adoption of digital credit platforms, as discussed by Singh (2023) [10] and supported by the data from Table 3, shows a trend towards greater financial inclusion. However, the literature points out that this trend is still in its early stages, with significant challenges remaining, particularly in terms of infrastructure and digital literacy (RBI, 2023). The comparison with earlier periods (2010-2020) indicates a positive trajectory, but the pace of change may not be sufficient to meet the needs of all farmers, especially those in remote areas.

4.3 Implications for Practice or Policy

The implications of these findings for policy and practice are multifaceted. First, there is a clear need for policies that specifically address the barriers faced by small and marginal farmers in accessing institutional credit (RBI, 2020; Kumar *et al*., 2021) [3]. Strengthening the rural banking infrastructure, reducing the bureaucratic hurdles associated with loan applications, and providing financial literacy programs are critical steps in this direction (Sharma *et al*., 2022) [9].

The role of non-institutional credit sources, while controversial, cannot be entirely dismissed. As Reddy & Reddy (2020) [6] suggest, these sources play a crucial role in areas where formal institutions are either absent or ineffective. However, the government must implement stricter regulations to protect farmers from exploitative practices, ensuring that non-institutional credit does not lead to further indebtedness and financial distress (Mohan, 2018) [4].

Digitalization offers a promising avenue for expanding credit access, but it must be accompanied by efforts to bridge the digital divide (RBI, 2023; Singh, 2023) [8]. This includes expanding internet access, improving mobile connectivity in rural areas, and enhancing digital literacy among farmers. The data presented in Table 3 and Figure 2 highlight the potential of digital platforms to transform the agricultural credit landscape, but realizing this potential will require concerted efforts from both the government and the private sector.

4.4 Strengths and Weaknesses of the Literature

The literature on India's agricultural credit system is extensive, offering a detailed analysis of the challenges and opportunities in this sector. One of the strengths of the reviewed studies is their focus on empirical data, which provides a solid foundation for understanding the current state of credit accessibility (Deshpande, 2021 [1]; Kumar *et al*., 2021) [3]. The studies by the RBI (2020; 2023) [8] and NABARD (2021) [5] are particularly valuable for their comprehensive coverage of institutional credit trends and the impact of recent reforms.

However, the literature also has notable weaknesses. Many studies rely on cross-sectional data, limiting their ability to capture long-term trends and the evolving nature of credit systems (Sharma *et al*., 2022) [9]. Additionally, there is a lack of focus on the socio-cultural factors that influence credit accessibility, such as gender and caste, which are crucial in the Indian context (Kumar *et al*., 2021) [3]. Furthermore, the literature on digital credit solutions is still emerging, with few studies providing a thorough analysis of their long-term impact on financial inclusion (Reddy & Reddy, 2020) [6].

4.5 Future Research Directions

Future research should focus on longitudinal studies that assess the impact of digital credit solutions over time, particularly in terms of their ability to improve financial inclusion for small and marginal farmers (Singh, 2023) [10]. There is also a need for more research on the socio-cultural factors that influence credit accessibility, including the roles of gender, caste, and regional disparities (Kumar *et al*., 2021) [3]. Additionally, studies should explore the intersection of credit accessibility with other socio-economic factors, such as education, land ownership, and access to markets (Reddy & Reddy, 2020) [6].

Finally, there is a need for more research on the sustainability and scalability of government schemes like PMFBY and digital KCCs (RBI, 2023) [8]. While these initiatives have shown promise, their long-term effectiveness in reducing farmer indebtedness and improving financial stability remains to be seen (Deshpande, 2021) [1].

5. Conclusion

5.1 Summary of Main Findings

This review highlights the persistent challenges within India's agricultural credit system, despite numerous reforms and policy initiatives. The accessibility of credit remains skewed towards large farmers, with small and marginal farmers continuing to rely heavily on non-institutional sources. Recent trends towards digitalization offer hope, but also present new challenges that need to be addressed.

5.2 Significance of the Review

The findings of this review are significant for policymakers, financial institutions, and researchers alike. They underscore the need for a more inclusive and sustainable credit system that can support the diverse needs of India's agricultural sector. The review also highlights the importance of continued research and innovation in financial services to ensure that all farmers have access to the credit they need.

5.3 Recommendations
Based on the findings, the following recommendations are proposed:

- **Policy Reform:** Implement targeted credit policies for small and marginal farmers, with a focus on reducing barriers to formal credit.
- **Strengthening Rural Banking:** Improve the infrastructure of rural banks and increase the availability of credit products tailored to the needs of different farming communities.
- **Digital Literacy:** Expand digital literacy programs to ensure that all farmers can access and benefit from digital credit platforms.
- **Regulation of Non-Institutional Credit:** Strengthen regulations to protect farmers from exploitative practices by non-institutional lenders.

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