Volume 11, Issue 1, January – 2026 International Journal of Innovative Science and Research Technology
ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26jan1633

From Distress to Development: The Role of Institutional Credit in Transforming Rural Economy in India

Dr. Ramesh Kumar[1]

[1]Assistant Professor
Department of Economics
KDS College, Gogri, Khagaria
Munger University, Munger

Publication Date: 2026/02/09

Abstract: Rural distress remains a persistent challenge in India, driven by climatic shocks, social inequality, small landholdings, and reliance on informal credit. This study examines how institutional credit can help reduce rural hardship and promote inclusive economic growth. Using long-term data from the Reserve Bank of India, NABARD, and government sources, the analysis tracks trends in loans issued and outstanding across cooperatives, scheduled commercial banks (SCBs), and regional rural banks (RRBs) from 1990–91 to 2023-24. It also assesses the adoption of the Kisan Credit Card (KCC) scheme to achieve financial inclusion in India. The results show rapid growth in institutional credit, with SCBs becoming the main lenders, while cooperatives and RRBs have seen their shares decline despite their community presence. Increasing outstanding loans indicate greater dependence on formal credit but also raise concerns about debt levels and repayment capacity. The KCC scheme has reached over 7 crore farmers, although changes in its adoption suggest uneven access and institutional hurdles. The study concludes that expanding credit alone cannot fully solve rural distress. It must be combined with social protection, climate-smart practices, and inclusive policies to support sustainable livelihoods. Strengthening cooperatives and RRBs, along with improving efficiency, is key to creating a balanced rural financial system. This study contributes to the discussion of rural development by linking institutional credit to livelihood security, resilience, and inclusive growth.

Keywords: *Rural Distress, Institutional Credit, Livelihood Security, Financial Inclusion, Economic Development, India.*

How to Cite: Dr. Ramesh Kumar (2026) From Distress to Development: The Role of Institutional Credit in Transforming Rural Economy in India. *International Journal of Innovative Science and Research Technology*, 11(1), 3329-3338.
https://doi.org/10.38124/ijisrt/26jan1633

I. INTRODUCTION

Economic development is a vital component of societal growth, aimed at enhancing individuals' well-being by increasing income and expanding opportunities. It involves strategically allocating resources and investments to promote sustainable growth and prosperity. By understanding how economic factors interact, we can work towards creating a more equitable and prosperous future for all. However, economic development depends on both economic and non-economic factors that influence each sector of the economy. According to economic development theory, transforming an economy requires changing working conditions and optimizing the economy through engineering. The structure of the global economy must shift from traditional modes of production to modern technologies. This transformation requires human and financial resources dedicated to specific goals. Theories suggest that the rural economy has an abundant labor supply, but it faces constraints due to limited financial resources. Financial institutions often act monopolistically in rural areas to develop operational infrastructure. Heterogeneous grassroots clusters mainly restrict rural economies. Economic development involves creating infrastructure that connects people to the market. The rural economy faces significant disadvantages, including reliance on unskilled labor, marginalization of farmers and small-scale industries, low density of financial institutions, and social issues. Although governments are attempting to transform rural ecosystems through e-governance, social and political structures often impede the functioning of the free market. Rural distress has emerged as one of the most pressing challenges in India. Despite decades of policy interventions, rural households continue to face structural vulnerabilities arising from small landholdings, dependence on informal credit, climate shocks, and entrenched social inequalities. These factors undermine agricultural productivity and perpetuate cycles of indebtedness and poverty, making rural distress a multidimensional problem that requires both economic and social solutions.

Financial institutions play a crucial role because most rural citizens are trapped with local moneylenders, face seasonal climatic distress, low productivity, a weak economic base, limited economies of scale, social unrest, and class struggles. According to Shaban et al. (2024), the agricultural economy in India is under stress, resulting in 0.35 million farmer suicides between 1996 and 2021. This study aims to identify methods and solutions for rural distress through financial institutions. We believe that if financial institutions, primarily banks, provide support, the rural economy can transition from distress to development. Currently, many SHGs and NGOs are shifting their focus from unskilled labor to entrepreneurship. Despite this heterogeneity and the scarcity of financial institutions, existing economic systems struggle to adapt to change. Through e-governance initiatives such as JAM, the government seeks to transform the financial landscape; however, given the large size of the rural economy, a substantial push is needed. Although India has launched numerous government-supported schemes since its independence to develop infrastructure, these efforts remain insufficient, given the scale and population of rural areas. The expansion of financial institutions has made significant progress; however, their share of support remains limited because of constraints on fixed capital.

Institutional credit has long been recognized as a critical instrument for alleviating rural distress in India. By providing affordable finance, institutional mechanisms such as cooperatives, Scheduled Commercial Banks (SCBs), and Regional Rural Banks (RRBs) aim to reduce dependence on moneylenders, support agricultural investment, and promote livelihood diversification. Over the past three decades, India has witnessed exponential growth in institutional credit disbursement, accompanied by government initiatives such as the Kisan Credit Card (KCC) scheme and the JAM trinity (Jan Dhan–Aadhaar–Mobile), which are designed to enhance financial inclusion. However, questions remain regarding the inclusivity, sustainability, and effectiveness of these mechanisms in reaching marginalized groups and addressing structural barriers. This study examines distress in the Indian rural economy and identifies the key factors that influence it, with a focus on the capabilities of these financial institutions. India's diverse geographic and climatic regions require tailored approaches to support rural development efforts. My primary goal is to examine how the rural economy has shifted from human-made distress to productive citizens through financial support. To achieve this, we analyzed initiatives by the government and financial institutions, particularly banking services and self-help groups, aimed at improving livelihood security and economic progress. Rural distress has emerged as one of the most pressing challenges in India’s development trajectory, reflecting the structural vulnerabilities of agrarian economies and the limitations of institutional mechanisms to address them. Despite decades of policy interventions, rural households continue to face persistent constraints, including low productivity, dependence on informal credit, climatic shocks, and inadequate access to modern infrastructure. These challenges undermine livelihood security and impede the broader goals of inclusive economic growth and social equity. Economic development theory emphasizes that transforming traditional economies requires both structural and institutional changes. In rural India, where agriculture and allied activities remain the backbone of livelihoods, the availability of affordable and timely credit is central to modernization, diversification, and resilience. Financial institutions, such as cooperatives, scheduled commercial banks (SCBs), and regional rural banks (RRBs), play a pivotal role in bridging the gap between subsistence farming and entrepreneurial activity. However, their outreach and effectiveness remain uneven, with rural citizens often trapped in cycles of indebtedness to local moneylenders, seasonal climatic distress, and limited economies of scale in farming. The expansion of institutional credit since the 1990s has been significant, as evidenced by the data from the Reserve Bank of India and NABARD. Loans issued and outstanding have grown exponentially, and schemes such as the Kisan Credit Card (KCC) seek to democratize access to finance. However, the distribution of credit across regions, institutions, and farmer categories reveals persistent disparities. Small and marginal farmers, women, and socially disadvantaged groups continue to face barriers in accessing formal financial services, thereby perpetuating this rural distress.

The persistence of rural distress despite credit expansion highlights a paradox: while institutional credit has grown in scale, its impact on livelihood security and resilience remains unevenly distributed. Rising outstanding loans raise concerns about indebtedness and repayment capacity, whereas fluctuations in KCC adoption highlight challenges in accessibility and institutional outreach. Moreover, climate variability and social inequality continue to limit the transformative potential of credit systems. The literature underscores the multidimensional nature of rural vulnerability. Studies have highlighted the impacts of climate change, migration, caste identity, and social inequalities on rural livelihoods. In contrast, others have emphasized the roles of financial inclusion, welfare economics, and institutional reforms in mitigating distress. Together, these perspectives suggest that rural distress cannot be addressed solely through credit expansion; rather, it requires integrated strategies that combine financial services with social protection, capacity building, and infrastructural development. Against this backdrop, the present study explores the role of institutional credit in alleviating rural distress and promoting economic growth in India. By analyzing trends in credit disbursement, outstanding loans, and KCC adoption, this study seeks to understand how financial institutions contribute to livelihood security and resilience. It also examines the limitations of current mechanisms and identifies pathways to strengthen rural financial ecosystems. The central argument is that, if effectively designed and implemented, institutional credit can transform rural economies from sites of vulnerability into engines of inclusive development.

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26jan1633

II. REVIEW OF LITERATURE

The literature on rural distress, institutional credit, and livelihood security spans multiple disciplines, including economics, development, climate policy, and social welfare. The thematic synthesis reveals several strands of scholarship that inform the present study, enhance academic discourse, and optimize the analysis. Building on previous theoretical and empirical studies, we mapped the literature review onto its theoretical foundations.

➢ *Rural Livelihoods, Migration, and Social Vulnerability:*

In the study, we primarily focused on key concerns regarding the rural economy, development strategies, and the role of financial institutions in facilitating the transformation of the rural economy into a mainstream economic enterprise. In India, rural distress stems from rural livelihoods, and its causes include migration, with temporary migration increasing social vulnerability. Within the vital rural discourse, we examine these themes in the context of global concerns and draw on prior studies to guide our investigation and to inform our findings. Migration has long been viewed as both a coping strategy and a driver of rural transformation in the Philippines. Eshetu et al. (2023) demonstrate that rural out-migration in Ethiopia enhances household consumption and food security, supporting the remittance hypothesis. Nienkerke et al. (2022) showed that integrated farming systems in India reduce distress migration by stabilizing rural incomes. Mosse (2018) underscores caste identity as a persistent determinant of life opportunities in India, while Nayak and Jatav (2023) apply the Sustainable Livelihood Security approach to urban slums, revealing deep vulnerabilities among marginalized households. Cutter (2024) traces the evolution of the Social Vulnerability Index (SoVI) and highlights its utility for disaster preparedness. Together, these studies emphasize that rural distress is not merely economic but is deeply embedded in social structures and migration dynamics. These findings highlight the importance of institutional and financial support in reducing vulnerability and enabling livelihood diversification.

➢ *Institutional Credit and Financial Inclusion:*

Formal or institutional finance is the backbone of a country's financial system. The rural economy primarily faces a lack of finance for rural and agricultural activities. Historically, zamindars, moneylenders, and financial institutions have controlled India’s economy. After independence, Indian policymakers were keenly interested in the development of the rural economy, as the Indian economy was largely dependent on rural economic activity. Many financial institutions and policy instruments emphasize agricultural development to advance rural development. In this regard, we examine how the studies are progressing and the primary concerns of financial institutions regarding the mitigation of rural distress through financial inclusion. We incorporate some key studies on this theme. Financial inclusion is central to rural development. Arun and Kamath (2015) argue for progressive financial inclusion policies in India and beyond, while Bhuiyan and Ivlevs (2018) show that microcredit-enabled entrepreneurship improves financial security but may also increase psychological stress. Vásquez (2020) explores indebtedness among Colombian peasants, revealing how debt repayment structures reinforce capitalist expansion in the region. Shaban et al. (2024) documented the alarming scale of farmer suicides in India, linking them to entrepreneurial uncertainty and inadequate institutional responses. These studies highlight both the transformative potential and inherent risks of institutional credit in rural economies.

➢ *Climate Change, Agriculture, and Livelihood Vulnerability:*

The Indian economy remains heavily dependent on agriculture, which primarily provides rural employment, raw materials for industry, and supports rural infrastructure. Climate change is one of the most significant challenges facing the Indian economy because agriculture emits greenhouse gases, exacerbating global warming and rising temperatures. Therefore, we need to examine prior studies to determine how to mitigate climate-related risks and enhance livelihoods. Climate variability is a major driver of rural distress in India. Hansen et al. (2018) highlight how stochastic shocks erode farmer welfare and hinder investment, while Makate et al. (2022) show that drought shocks in Ethiopia encourage diversification but reduce agricultural activity. Jha and Gupta (2021) find that Indian farmers’ adaptation decisions are shaped by socioeconomic factors, while Yeleliere et al. (2023) document declining rainfall and rising temperatures in Ghana. Aleksandrova and Costella (2021) argue for the integration of social protection with climate resilience, aligning with the Paris Agreement. Kapruwan et al. (2024) assessed resilience in the Himalayas and found that smallholders were more adaptable than pastoralists. These studies collectively emphasize that institutional credit must be climate-sensitive to effectively mitigate rural vulnerabilities.

➢ *Economic Development and Welfare Perspectives:*

Constitutionally, India is a democratic and socialist country. The constitution facilitates political engagement from the bottom to the apex institution, thereby integrating financial and policy effectiveness from a developmental perspective. The Finance Commission and PRI institutions have robust financial mechanisms to accelerate rural economic development. From this perspective, we draw on prior studies to examine how welfare policies mitigate rural distress. The theoretical contributions provide a broader context for rural distress. Bergh (2021) revisits New Welfare Economics, emphasizing its role in poverty relief. Fleurbaey and Zuber (2021) proposed fair utilitarianism as a framework for measuring welfare and inequality. Cooper et al. (2023) introduce new approaches to welfare measurement, including life-satisfaction scales and well-being frameworks. Lucas (2023) critiques government discount rate choices, while Donadelli et al. (2021) link rising temperatures to reduced R&D expenditure and increased welfare costs. These perspectives highlight the intersection of welfare economics, environmental change, and financial policies in shaping rural development outcomes.

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26jan1633

➢ *Policy Innovations and Case Studies:*

In the Indian economy, good governance is foundational to economic development. In rural development, most social groups do not meet their basic needs; hence, the government has introduced numerous schemes to enhance the rural economy. Some schemes directly address rural distress and enhance universal income; accordingly, we incorporate government schemes, and the observed success rates enhance public utility and mitigate social vulnerability. Recent case studies illustrate these practical interventions. Trivedi et al. (2023) evaluated India's PMUY program, showing how machine learning can improve LPG refill targeting. Chao (2024) and Sangha et al. (2020) explore family farming and Indigenous land-based opportunities as strategies for climate-resilient food systems. Datta et al. (2024) highlighted the vulnerabilities of Himalayan Forest communities, while Schoneveld and Weng (2023) proposed value network approaches to agrifood chains. These studies provide valuable insights into how institutional credit and policy design can mitigate rural distress and promote inclusive development. The literature reveals that the complex interplay of migration, climate shocks, social inequalities, and institutional structures shapes rural distress. While institutional credit has expanded significantly, its effectiveness depends on integration with social protection, climate resilience, and inclusive policies. This study builds on these insights by examining the evolution of institutional credit in India over time, assessing its role in alleviating distress, and identifying gaps in inclusivity and sustainability.

➢ *Research Gap*

Despite the extensive literature on rural development, financial inclusion, and poverty alleviation, several gaps remain in the Indian economy. Previous studies have paid limited attention to the integration of institutional credit into livelihood resilience. Most studies focus either on credit expansion or rural vulnerability, but few examine how institutional credit directly mitigates distress and enhances resilience to climatic and social shocks. While aggregate data show significant growth in loans issued and outstanding, there is insufficient analysis of how these trends vary across states, farmer categories, and marginalized groups in India. Existing research often emphasizes commercial banks, leaving the contributions and challenges of cooperatives and RRBs poorly understood. Much of the literature highlights the quantitative expansion of credit but neglects issues of repayment capacity, indebtedness, and the long-term sustainability of rural financial systems. Few studies have integrated economic, social, and environmental perspectives to provide a comprehensive understanding of rural distress, particularly in the context of climate change and migration.

➢ *Research Objectives*

- To analyze the role of institutional credit in alleviating rural distress, and to examine trends in credit disbursement and outstanding loans
- To evaluate the institutional contributions of cooperatives, SCBs, and RRBs in addressing rural credit needs and highlight strengths/weaknesses
- To evaluate the effectiveness of government initiatives (KCC, JAM scheme) in improving rural households' access to institutional credit
- To identify structural barriers and propose tailored interventions, such as climatic shocks, social inequalities, and small landholdings, that continue to limit the effectiveness of institutional credit in the region

III. RESEARCH METHODOLOGY

This study adopts a mixed-method approach, combining secondary data analysis with conceptual synthesis, to examine the role of institutional credit in addressing rural distress in India. The methodology is structured around the following components: Data Sources: Reports from the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) were used to collect annual data on loans issued and outstanding by cooperatives, scheduled commercial banks (SCBs), and regional rural banks (RRBs). Government databases, such as data.gov.in, provide information on Kisan Credit Card (KCC) accounts issued to farmers between 2014-15 and 2022-23. Published literature from peer-reviewed journals and policy reports was reviewed to contextualize rural distress, financial inclusion, and livelihood vulnerability. We quantitatively analyzed yearly data on institutional credit disbursements and outstanding loans to identify growth patterns, institutional contributions, and structural shifts in rural financing. The relative roles of cooperatives, SCBs, and RRBs are examined to highlight their respective strengths and weaknesses. In addition to government initiatives, such as the KCC scheme and JAM trinity, the effectiveness of these initiatives in expanding financial inclusion and reducing dependence on informal credit was assessed. Finally, insights from the literature review were synthesized to connect credit expansion to broader issues of rural vulnerability, including climate change, migration, caste, and social inequality. Quantitative data were used to establish empirical trends in the expansion of regional credit. Qualitative insights from the literature were integrated to explain the structural causes of rural distress and the potential of institutional credit as a transformative tool. This study adopts an interdisciplinary lens, combining economics, social policy, and development studies to provide a holistic understanding of rural distress. This study primarily focuses on agriculture and allied activities, recognizing their centrality to rural livelihoods. Data are limited to institutional sources and may not fully capture informal credit dynamics, which are significant in rural India. The analysis is at the macro-level, emphasizing national trends rather than micro-level household surveys; however, insights from the literature help bridge this gap.

➢ *Research Questions:*

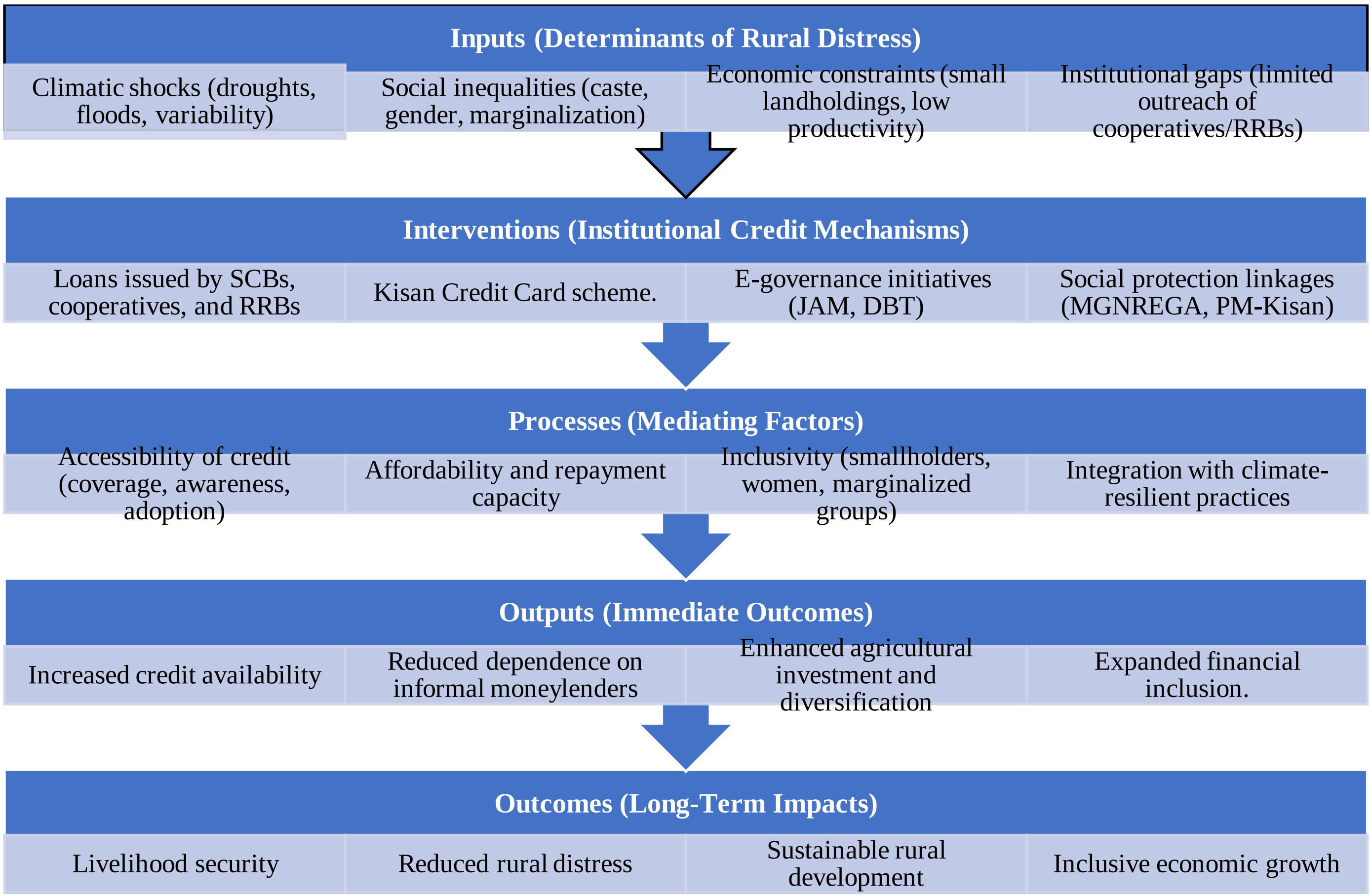
- How has institutional credit for agriculture and allied activities evolved in India from 1990–91 to 2023–24?
- What is the relative contribution of cooperatives, SCBs, and RRBs in addressing rural credit needs?
- To what extent has the Kisan Credit Card (KCC) scheme improved rural households' access to institutional credit?

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26jan1633

- What structural barriers (climatic shocks, social inequalities, small landholdings) continue to limit the effectiveness of institutional credit in the region?

➤ *Conceptual Framework*

Rural distress in India arises from a confluence of economic, social, and environmental factors, including small landholdings, reliance on informal credit, climatic shocks, and social inequalities. Institutional credit, offered through cooperatives, Scheduled Commercial Banks, and Regional Rural Banks, plays a transformative role in mitigating rural distress. Expanding access to affordable finance reduces dependence on moneylenders and supports livelihood diversification and resilience, thereby complementing government initiatives such as the Kisan Credit Card and JAM Trinity. However, the efficacy of institutional credit depends on its quality, inclusiveness, and sustainability. The increase in outstanding loans underscores the risks associated with indebtedness, while the uneven implementation of initiatives such as the Kisan Credit Card (KCC) scheme highlights existing structural barriers. Consequently, the framework positions institutional credit as both a catalyst for rural development and a potential source of vulnerability if not managed inclusively. The components of this framework are as follows:



Through the conceptual framework, we are now proceeding with data analysis to examine the expansion of institutional credit in the agricultural sector. Through this, we present a trend analysis of RBI and NABARD data (Tables 1 and 2) and year-wise comparisons of loans issued and outstanding, as well as Kisan Credit Card accounts.

IV. DATA ANALYSIS

Our study reveals that the transformation of the Indian economy, especially in the agricultural sector, requires such financial support. This support comes from various sources within the financial institutions. In accordance with the research questions, we proceeded with the data to support our research objectives.

Table 1: Institutional Credit for Agriculture and Allied Activities (₹ Crore)

Year	Loans Issued by Different Banks			
	Co-operatives	**SCBs**	**RRBs**	**Total**
1990-91	4819	4676	335	9829
1994-95	9876	7408	1083	18366

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26jan1633

1999-00	25678	16350	2985	45013
2004-05	45009	48367	11927	105303
2009-10	63497	188253	34640	286390
2014-15	138470	604376	102483	845329
2015-16	153295	642954	119261	915510
2016-17	142758	799781	123216	1065755
2017-18	150321	871080	141216	1162617
2018-19	152340	954823	149667	1256830
2019-20	157367	1070036	165326	1392729
2020-21	190682	1194704	190012	1575398
2021-22	243220	1415964	204180	1863363
2022-23P	236349	1676529	242286	2155163
2023-24P	242008	2023749	282878	2548635

Source: 1. Reserve Bank of India 2. National Bank for Agriculture and Rural Development (NABARD).

Table 1 presents the progress of agricultural credit in India through different banks. Data show that loans issued for agriculture and allied activities increased from ₹9,829 crore in 1990–91 to over ₹25,48,635 crore in 2023-24. This reflects a nearly 260-fold increase over three decades. The table shows the dominance of Scheduled Commercial Banks (SCBs). SCBs have accounted for more than 80% of total disbursements in recent years. Their share rose sharply after 2004-05, coinciding with financial sector reforms and government-led credit-expansion programs. Although cooperatives and RRBs contributed significantly in the early 1990s, their relative shares declined over time. By 2023-24, cooperatives accounted for less than 10% of total disbursement, highlighting structural weaknesses in cooperative credit institutions. While institutional credit has expanded dramatically, rural distress persists due to structural issues, small landholdings, climatic shocks, and social inequalities. SCBs dominate the volume, but cooperatives and RRBs remain crucial for local access. Strengthening these institutions is essential for inclusive financial penetration in rural areas.

Table 2: Institutional Loans Outstanding for Agriculture and Allied Activities (₹ Crore)

Year	Loans Outstanding			
	Co-operatives	**SCBs**	**RRBs**	**Total**
1990-91	10531	17032	1753	29316
1994-95	16810	20920	3009	40738
1999-00	41950	33442	5991	81383
2004-05	78822	95519	16709	191050
2009-10	59791	315436	46282	421509
2014-15	154287	683969	112604	950860
2015-16	156121	814841	133401	1104363
2016-17	226698	668109	153416	1048223
2017-18	184396	924084	171301	1279781
2018-19	178820	995114	197432	1371365
2019-20	187262	1012858	209505	1409625
2020-21	200615	1842028	234786	2277429
2021-22	230604	2025721	257174	2513499
2022-23	252550	2348975	286648	2888173
2023-24	265418	2767346	319881	3352645

Source: Reserve Bank of India and National Bank for Agriculture and Rural Development

Loans outstanding are a form of delayed payment system in which borrowers are unable to repay on the maturity date. This is a crucial concern for rural livelihoods and vulnerability. Table 2 presents the status of outstanding loans across Indian banks. From 1990–91 to 1999-2000, outstanding loans increased from ₹29,316 to ₹81,383, indicating rising indebtedness. 2004-05 to 2009-10: More than doubled (₹1,91,050 to ₹4,21,509), reflecting aggressive credit expansion. 2014-15 to 2023-24: Outstanding loans rose from ₹9,50,860 to ₹33,52,645, indicating both increased access and repayment challenges. The table indicates both the expansion in credit availability and rising indebtedness among rural households. Table 2 shows that SCBs dominate outstanding loans, reflecting their aggressive expansion in the rural credit markets. Cooperatives, which were once central to rural finance, now play a secondary role. The rising outstanding loans suggest increased dependence on institutional credit but also raise concerns about repayment capacity, debt sustainability, and potential vulnerability to credit shocks.

Table 3: Year-Wise Details of Kisan Credit Card (KCC) Issued by Banks

Year	Public Sector Banks	Cooperative Banks	Regional Rural Banks	Total
2014-15	22524560	39091037	11984462	73600059
2015-16	23469789	39165770	12634450	75270009
2016-17	23368309	35882515	12271488	71522312
2017-18	23521236	33494661	12193439	69209336
2018-19	23632381	30414149	12253069	66299599
2019-20	24144682	28938167	12197405	65280254
2020-21	30696058	30183283	12890610	73769951
2021-22	26870864	31131326	13348024	71350214
2022-23	28296021	31344000	13829000	73469021

Source: https://www.data.gov.in/resource/year-wise-details-kisan-credit-card-kcc-accounts-farmers-who-have-been-issued-kcc-2014-15

Table 3 presents the adoption of the Kisan Credit Card (KCC) among Indian farmers to expand agricultural activities. 2014-15 to 2019-20: Decline from 7.36 crore to 6.52 crore accounts, suggesting stagnation in adoption. 2020-21: Sharp recovery to 7.37 crore accounts, likely due to the renewed government focus during COVID-19. 2022-23: Stabilized at 7.34 crore, showing consistent outreach but limited growth beyond saturation levels. Historically, the largest issuers were Cooperative Banks (3.9 crore in 2014-15), but this number declined to ~3.1 crore by 2022-23. In total, the KCC scheme issued over 7.3 crore cards by 2022-23, providing farmers with flexible access to credit. Cooperative banks are the largest issuers of KCCs, followed by public sector banks and regional rural banks (RRBs). This contrasts with loan disbursement trends, in which SCBs dominate, suggesting that cooperatives maintain a strong grassroots presence in farmer outreach. The number of active KCC accounts declined between 2014-15 and 2019-20, before recovering in 2020-21. This reflects both policy adjustments and farmers' changing credit requirements. We infer that initiatives such as the KCC and JAM have improved access; however, disparities in utilization and repayment highlight the need for tailored interventions across regions and farmer categories.

V. DISCUSSION

This study reveals a complex and evolving relationship between institutional credit and rural distress in India. The conceptual framework developed in this study illustrates how structural determinants, such as climatic shocks, social inequalities, economic constraints, and institutional gaps, interact with credit mechanisms to shape livelihood outcomes. While institutional credit has expanded significantly over the past three decades, its effectiveness in reducing rural distress remains uneven and conditional. The dominance of Scheduled Commercial Banks (SCBs) in credit disbursement and outstanding loans reflects a centralized financial architecture that prioritizes volume over inclusivity. Despite their proximity to rural communities, cooperatives and Regional Rural Banks (RRBs) have experienced a decline in their relative share, raising concerns about grassroots accessibility. This institutional asymmetry suggests that credit expansion alone cannot ensure equitable development unless accompanied by structural reforms and capacity building. The Kisan Credit Card (KCC) scheme, a flagship initiative for financial inclusion, has reached over 7 million farmers. However, fluctuations in account numbers and uneven adoption across institutions indicate challenges in awareness, renewal, and institutional outreach. These findings align with the literature, emphasizing the need for localized, socially sensitive financial instruments (Arun & Kamath, 2015; Bhuiyan & Ivlevs, 2018). Rising outstanding loans signal increased dependence on formal credit but also raise questions about repayment capacity and debt sustainability. This echoes the concerns raised by Vásquez (2020) and Shaban et al. (2024), who linked indebtedness and entrepreneurial uncertainty to rural distress and farmer suicides. Moreover, the integration of institutional credit with climate resilience is limited. Studies by Hansen et al. (2018), Makate et al. (2022), and Kapruwan et al. (2024) emphasize that credit mechanisms must be tailored to address climatic shocks and livelihood vulnerability. The conceptual framework reinforces this by positing that climate-sensitive credit serves as a mediating mechanism essential for achieving sustainable outcomes. In summary, institutional credit plays a pivotal role in transforming rural economies; however, its impact is mediated by accessibility, affordability, inclusivity, and integration with broader development strategies. This study calls for a reimagining of rural financial ecosystems—one that balances scale with sensitivity and expansion with equity.

VI. FINDINGS

Institutional credit for agriculture and allied activities increased nearly 260-fold between 1990-91 and 2023-24, reflecting aggressive policy interventions and financial sector reforms. Scheduled Commercial Banks (SCBs) have emerged as the primary drivers of rural credit, accounting for

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/26jan1633

approximately 80% of loans issued and outstanding in recent years. Their expansion underscores the centralization of rural financing in formal banking. Cooperatives, once the backbone of rural credit in the 1990s, now account for less than 10% of total disbursements. Despite their grassroots reach, structural weaknesses and limited capital have reduced their market share. Regional Rural Banks (RRBs) have grown steadily but remain secondary players, accounting for approximately 10% of total loans. Their localized presence is valuable but is underutilized. Outstanding loans grew from ₹29,316 crore in 1990-91 to ₹33,52,645 crore in 2023-24. This indicates an increased reliance on institutional credit and raises concerns about repayment capacity and debt sustainability. Over 7 crore farmers have been issued KCCs, making it a cornerstone of financial inclusion in India. Cooperatives lead in KCC issuance, underscoring their continued importance in grassroots farmer engagement, despite declining loan volumes. The decline in accounts between 2014-15 and 2019-20, followed by a recovery in 2020-21, suggests uneven adoption and potential challenges with renewal, awareness, or accessibility. While SCBs dominate the volume, cooperatives and RRBs remain crucial for local access. This imbalance highlights the need to strengthen smaller institutions to ensure inclusive and equitable credit distribution. These findings show that credit expansion alone does not eliminate rural distress. Instead, they reveal a dual challenge.

VII. CONCLUSION

This study demonstrates that institutional credit has expanded dramatically in India's rural economy over the past three decades, with total disbursements rising from less than ₹10,000 crore in 1990-91 to more than ₹25 lakh crore in 2023-24. Scheduled Commercial Banks (SCBs) have emerged as the dominant providers of credit, while cooperatives and Regional Rural Banks (RRBs), despite their grassroots presence, have seen their relative share decline. This institutional asymmetry highlights both the strengths and the weaknesses of India's rural financial architecture. The analysis of outstanding loans reveals that while access to credit has improved, rural indebtedness has also grown substantially, raising concerns about repayment capacity and long-term sustainability. The Kisan Credit Card (KCC) scheme has played a vital role in expanding financial inclusion, reaching over 7 million farmers. However, fluctuations in account numbers suggest uneven adoption and challenges in maintaining consistent engagement with the content. Overall, the findings underscore that credit expansion alone is insufficient to eliminate rural distress. Structural issues, such as small landholdings, climatic shocks, social inequalities, and dependence on informal credit, continue to undermine rural livelihoods. Therefore, institutional credit must be integrated with broader strategies, such as social protection, capacity building, and infrastructural development, to ensure that rural households not only gain access to finance but also achieve sustainable economic progress. The study concludes that strengthening cooperatives and RRBs while enhancing the efficiency and inclusivity of SCBs is essential for building a balanced and resilient rural financial ecosystem. Institutional credit, when combined with tailored policies and grassroots empowerment, can transform rural distress into rural development, thereby contributing to inclusive growth and improving national prosperity.

POLICY IMPLICATIONS

The dominance of Scheduled Commercial Banks (SCBs) in rural credit highlights the need for policies that strengthen cooperatives and Regional Rural Banks (RRBs) to ensure balanced institutional participation and equitable access to credit. While credit expansion has been significant, marginalized groups (smallholders, women, and socially disadvantaged communities) remain underserved. Tailored credit products and localized outreach are essential for bridging these gaps. Rising outstanding loans indicate increasing indebtedness. Policymakers must integrate credit expansion with debt management strategies, including financial literacy, crop insurance, and repayment-support mechanisms. Institutional credit should be linked with welfare schemes (MGNREGA, PM-Kisan, and social security programs) to provide a safety net against climatic and market shocks in the study area. Government initiatives, such as Jan Dhan–Aadhaar–Mobile (JAM) and digital banking platforms, can reduce transaction costs, improve transparency, and enhance rural households' access to credit.

FUTURE SCOPE

Household-level surveys can provide deeper insights into how institutional credit affects livelihood resilience, repayment behaviors, and social mobility. Future research should explore disparities in credit access across states, agro-climatic zones, and caste and class groups to design region-specific interventions. As climatic shocks intensify, studies should examine how credit can be structured to support climate adaptation, including crop diversification, the use of drought-resistant seeds, and the adoption of renewable energy. Further investigation is needed on how these institutions can be revitalized through capacity building, digital integration, and partnerships with NGOs/SHGs. Longitudinal studies can assess whether rising credit volumes translate into sustainable income growth or merely increase indebtedness. Combining economics, behavioral science, and policy analysis can yield holistic strategies to address rural distress that extend beyond financial metrics alone.

REFERENCES

[1]. Aleksandrova, M., & Costella, C. (2021). Reaching the poorest and most vulnerable: Addressing loss and damage through social protection. *Current Opinion in Environmental Sustainability*, *50*, 121–128. https://doi.org/10.1016/j.cosust.2021.03.010
[2]. Arun, T., & Kamath, R. (2015). Financial inclusion: Policies and practices. *IIMB Management Review*, *27*(4), 267–287. https://doi.org/10.1016/j.iimb.2015.09.004
[3]. Balasubramanian, P., Ibanez, M., Khan, S., & Sahoo, S. (2024). Does women's economic empowerment promote human development in low- and middle-

income countries? A meta-analysis. *World Development*, *178*, 106588. https://doi.org/10.1016/j.worlddev.2024.106588
[4]. Berchoux, T., & Hutton, C. W. (2019). Spatial associations between household and community livelihood capital in rural territories: An example from the Mahanadi Delta, India. *Applied Geography*, *103*, 98–111. https://doi.org/10.1016/j.apgeog.2019.01.002
[5]. Bergh, A. (2021). Poverty and new welfare economics. In *Routledge eBooks* (pp. 145–157). https://doi.org/10.4324/9780429331312-9
[6]. Bhuiyan, M. F., & Ivlevs, A. (2018). Micro-entrepreneurship and subjective well-being: Evidence from rural Bangladesh. *Journal of Business Venturing*, *34*(4), 625–645. https://doi.org/10.1016/j.jbusvent.2018.09.005
[7]. Ceesay, E. K., & Ndiaye, M. B. O. (2022). Climate change, food security, and economic growth nexus in the Gambia: Evidence from an econometric analysis. *Research in Globalization*, *5*, 100089. https://doi.org/10.1016/j.resglo.2022.100089
[8]. Chao, K. (2024). Family farming in climate change: Strategies for resilient and sustainable food systems. *Heliyon*, *10*(7), e28599. https://doi.org/10.1016/j.heliyon.2024.e28599
[9]. Chavas, J., Rivieccio, G., Di Falco, S., De Luca, G., & Capitanio, F. (2022). Agricultural diversification, productivity, and food security across time and space. *Agricultural Economics*, *53*(S1), 41–58. https://doi.org/10.1111/agec.12742
[10]. Cooper, K., Fabian, M., & Krekel, C. (2023). New approaches to measuring welfare. *Fiscal Studies*, *44*(2), 123–135. https://doi.org/10.1111/1475-5890.12333
[11]. Cutter, S. L. (2024). The origin and diffusion of the Social Vulnerability Index (SOVI). *International Journal of Disaster Risk Reduction*, *109*, 104576. https://doi.org/10.1016/j.ijdrr.2024.104576
[12]. Datta, P., Rahut, D. B., Behera, B., Sonobe, T., & Naveen, N. (2024). Assessing forest villagers' livelihood vulnerability to environmental changes in the Buxa Tiger Reserve of sub-Himalayan India. *Trees, Forests, and People*, *17*, 100632. https://doi.org/10.1016/j.tfp.2024.100632
[13]. De Carvalho, Í. C. S., Di Serio, L. C., Guimarães, C. M. C., & Furlanetto, K. S. (2020). Social progress on the development of global competitiveness. *Competitiveness Review an International Business Journal Incorporating Journal of Global Competitiveness*, *31*(4), 713–728. https://doi.org/10.1108/cr-12-2018-0078
[14]. Donadelli, M., Grüning, P., Jüppner, M., & Kizys, R. (2021). Global temperature, R&D expenditure and growth. *Energy Economics*, *104*, 105608. https://doi.org/10.1016/j.eneco.2021.105608
[15]. Eshetu, F., Haji, J., Ketema, M., & Mehare, A. (2023). Impact of rural out-migration on poverty of households in southern Ethiopia. *Cogent Economics & Finance*, *11*(1). https://doi.org/10.1080/23322039.2023.2169996
[16]. Fleurbaey, M., & Zuber, S. (2021). Fair utilitarianism. *American Economic Journal Microeconomics*, *13*(2), 370–401. https://doi.org/10.1257/mic.20170234
[17]. Hansen, J., Hellin, J., Rosenstock, T., Fisher, E., Cairns, J., Stirling, C., Lamanna, C., Van Etten, J., Rose, A., & Campbell, B. (2018). Climate risk management and rural poverty reduction. *Agricultural Systems*, *172*, 28–46. https://doi.org/10.1016/j.agsy.2018.01.019
[18]. Holden, S. T., & Ghebru, H. (2016). Land tenure reforms, tenure security, and food security in poor agrarian economies: Causal linkages and research gaps. *Global Food Security*, *10*, 21–28. https://doi.org/10.1016/j.gfs.2016.07.002
[19]. Jha, C. K., & Gupta, V. (2021). Farmer's perception and factors determining the adaptation decisions to cope with climate change: Evidence from rural India. *Environmental and Sustainability Indicators*, *10*, 100112. https://doi.org/10.1016/j.indic.2021.100112
[20]. Kapruwan, R., Saksham, A. K., Bhadoriya, S., Kumar, C., Goyal, Y., & Pandey, R. (2024). Household livelihood resilience of pastoralists and smallholders to climate change in the Western Himalaya, India. *Heliyon*, *10*(2), e24133. https://doi.org/10.1016/j.heliyon.2024.e24133
[21]. Kaur, H., Srinivas, A., & Bazaz, A. (2021). Understanding access to agrarian knowledge systems: Perspectives from rural Karnataka. *Climate Services*, *21*, 100205. https://doi.org/10.1016/j.cliser.2020.100205
[22]. Kinney, M., Kumar, M. B., Kaboré, I., Kiendrébéogo, J., Waiswa, P., & Lawn, J. E. (2024). Global Financing Facility investments for vulnerable populations: content analysis of maternal and newborn health and stillbirths in 11 African countries, 2015 to 2019. *Global Health Action*, *17*(1). https://doi.org/10.1080/16549716.2024.2329369
[23]. Lepers, E. (2024). Fiscal policy as credit policy: Homeownership subsidization and the household debt boom. *Economy and Society*, *53*(2), 322–349. https://doi.org/10.1080/03085147.2024.2344354
[24]. Lucas, D. (2023). Introduction to the ARFE theme on the social discount rate. *Annual Review of Financial Economics*, *15*(1), 115–125. https://doi.org/10.1146/annurev-financial-111820-084531
[25]. Makate, C., Angelsen, A., Holden, S. T., & Westengen, O. T. (2022). Crops in crises: Shocks shape smallholders' diversification in rural Ethiopia. *World Development*, *159*, 106054. https://doi.org/10.1016/j.worlddev.2022.106054
[26]. Mosse, D. (2018). Caste and development: Contemporary perspectives on a structure of discrimination and advantage. *World Development*, *110*, 422–436. https://doi.org/10.1016/j.worlddev.2018.06.003
[27]. Mukherjee, M., & Fransen, S. (2024). Exploring migration decision-making and agricultural adaptation in the context of climate change: A systematic review. *World Development*, *179*, 106600. https://doi.org/10.1016/j.worlddev.2024.106600
[28]. Nayak, S., & Jatav, S. S. (2023). Are the livelihoods of slum dwellers sustainable and secure in developing economies? Evidence from Lucknow, Uttar Pradesh,

India. *Heliyon*, *9*(9), e19177. https://doi.org/10.1016/j.heliyon.2023.e19177
[29]. Neto, G. G. R., Kchouk, S., Melsen, L. A., Cavalcante, L., Walker, D. W., Dewulf, A., Costa, A. C., Martins, E. S. P. R., & Van Oel, P. R. (2023). HESS Opinions: Drought impacts as failed prospects. *Hydrology and Earth System Sciences*, *27*(22), 4217–4225. https://doi.org/10.5194/hess-27-4217-2023
[30]. Nienkerke, I. M., Thorat, A., & Patt, A. (2022). From distress migration to selective migration: Transformative effects of agricultural development on seasonal migration. *World Development Perspectives*, *29*, 100483. https://doi.org/10.1016/j.wdp.2022.100483
[31]. Perelmiter, L. (2021). “Fairness” in an unequal society: Welfare workers, labor inspectors, and the embedded moralities of street-level bureaucracy in Argentina. *Public Administration and Development*, *42*(1), 85–94. https://doi.org/10.1002/pad.1954
[32]. Sangha, K. K., Duvert, A., Archer, R., & Russell-Smith, J. (2020). Unrealized economic opportunities in remote Indigenous communities: Case studies from Northern Australia. *Social Sciences & Humanities Open*, *2*(1), 100093. https://doi.org/10.1016/j.ssaho.2020.100093
[33]. Schoneveld, G. C., & Weng, X. (2023). Smallholder value creation in agrifood chains: A value network approach. *Land Use Policy*, *131*, 106676. https://doi.org/10.1016/j.landusepol.2023.106676
[34]. Shaban, A., Kourtit, K., Nijkamp, P., & Das, B. (2024). Socio-ecological shocks, weak community support systems, and tragic responses of farmers: A modeling study on India. *Regional Science Policy & Practice*, *16*(9), 100030. https://doi.org/10.1016/j.rspp.2024.100030
[35]. Shiferaw, B., Tesfaye, K., Kassie, M., Abate, T., Prasanna, B., & Menkir, A. (2014). Managing vulnerability to drought and enhancing livelihood resilience in sub-Saharan Africa: Technological, institutional, and policy options. *Weather and Climate Extremes*, *3*, 67–79. https://doi.org/10.1016/j.wace.2014.04.004
[36]. Singh, C., Rahman, A., Srinivas, A., & Bazaz, A. (2018). Risks and responses in rural India: Implications for local climate change adaptation action. *Climate Risk Management*, *21*, 52–68. https://doi.org/10.1016/j.crm.2018.06.001
[37]. Singh, N. P., Anand, B., Singh, S., & Khan, A. (2019). Mainstreaming climate adaptation in the Indian rural development agenda: A micro-macro convergence. *Climate Risk Management*, *24*, 30–41. https://doi.org/10.1016/j.crm.2019.04.003
[38]. Stern, N., Stiglitz, J., & Taylor, C. (2022). The economics of immense risk, urgent action, and radical change: towards new approaches to the economics of climate change. *Journal of Economic Methodology*, *29*(3), 181–216. https://doi.org/10.1080/1350178x.2022.2040740
[39]. Sultana, N., & Paul, S. R. (2024). Indicators of riverbank erosion vulnerability assessment: A systematic literature review for future research. *HydroResearch*, *7*, 337–359. https://doi.org/10.1016/j.hydres.2024.06.002
[40]. Trivedi, S. K., Roy, A. D., Kumar, P., Jena, D., & Sinha, A. (2023). Prediction of consumers’ LPG refill frequency: A study using explainable machine learning. *Heliyon*, *10*(1), e23466. https://doi.org/10.1016/j.heliyon.2023.e23466
[41]. Tsiantikoudis, N., Zafeiriou, N., Kyriakopoulos, N., & Arab (2019). Revising the environmental Kuznets Curve for deforestation: An empirical study of Bulgaria. *Sustainability*, *11*(16), 4364. https://doi.org/10.3390/su11164364
[42]. Vásquez, L. A. (2020). If you do not owe, you do not own: debt, discipline, and growth in rural Colombia. *Journal of Rural Studies*, *78*, 271–281. https://doi.org/10.1016/j.jrurstud.2020.06.025
[43]. Von Groß, V., Sibhatu, K. T., Knohl, A., Qaim, M., Veldkamp, E., Hölscher, D., Zemp, D. C., Corre, M. D., Grass, I., Fiedler, S., Stiegler, C., Irawan, B., Sundawati, L., Husmann, K., & Paul, C. (2024). Transformation scenarios towards multifunctional landscapes: A multi-criteria land-use allocation model applied to Jambi Province, Indonesia. *Journal of Environmental Management*, *356*, 120710. https://doi.org/10.1016/j.jenvman.2024.120710
[44]. Wahlund, M., & Hansen, T. (2022). Exploring alternative economic pathways: A comparison of foundational economy and doughnut economics. *Sustainability Science Practice and Policy*, *18*(1), 171–186. https://doi.org/10.1080/15487733.2022.2030280
[45]. Xu, Z., Qayum, M., Afzal, J., & Aslam, M. (2023). Availability and access to livelihood capital assets for the development of sustainable livelihood strategies of fishermen: A case study of Manchar Lake Pakistan. *Heliyon*, *9*(12), e22549. https://doi.org/10.1016/j.heliyon.2023.e22549
[46]. Yeleliere, E., Antwi-Agyei, P., & Guodaar, L. (2023). Farmers responses to climate variability and change in rainfed farming systems: Insights from farmers lived experiences *Heliyon*, *9*(9), e19656. https://doi.org/10.1016/j.heliyon.2023.e19656