Clerk2Officer.com

2026 EDITION

CAIIB

ELECTIVE I

Rural Banking

Complete study book with practice questions

01 Rural India

02 Financing Rural Development

03 Priority Sector and Schemes

04 Problems and Prospects

Illustrated study book

LEARN • PRACTISE • GROW

www.clerk2officer.com

Clerk2Officer

Study material and practice for working bankers

This book covers the IIBF syllabus for the CAIIB elective paper **Rural Banking**, module by module: rural India, financing rural development, priority sector financing and government initiatives, and the problems and prospects of rural banking.

Each chapter explains the concepts in plain English, connects them to decisions a branch or credit officer actually takes, and ends with quick revision points and practice questions with explanations.

www.clerk2officer.com

How each chapter works

Part	What it does
Start with the decision	A short banking situation that the chapter helps you resolve.
Concepts	The syllabus topics explained in plain English, with tables, flows and figures.
Key facts	Numbers, dates and names that examinations ask about, with the year they relate to.
Worked case	A branch-level application of the chapter.
Quick revision	One-line recall points for the night before the examination.
Practice with explanations	Multiple-choice questions with the reason for each answer.

About this edition

Figures, scheme features and regulatory limits are stated with the year or document they come from. Rules change: before using a number for an operational decision, check the current RBI, NABARD or Government instruction.

This is an independent study aid. It is not published by, or affiliated to, the Indian Institute of Banking and Finance.

Contents

MODULE A / Rural India	
A01 Demographic Features of Rural India	4
A02 Characteristics of Rural Society	10
A03 Economic Features of Rural India	15
A04 Rural Infrastructure	21
A05 Agricultural Economy	26
A06 Rural Development Policies	31
A07 Issues in Rural Development	36
MODULE B / Financing Rural Development	
B01 Regulation of Rural Financial Services	41
B02 Rural Credit Institutions	46
B03 Financing Agriculture and Allied Activities	51
B04 Financing the Rural Non-Farm Sector	56
B05 SME Finance	61
B06 Rural Project Formulation and Appraisal	66
MODULE C / Priority Sector Financing and Government Initiatives	
C01 Priority Sector Lending	71
C02 Poverty Alleviation and Welfare Programmes	76
C03 Rural Housing and Education Loans	80
C04 Financial Inclusion, Financial Education and Benefit Delivery	85
MODULE D / Problems and Prospects in Rural Banking	
D01 Emerging Trends in Rural Banking	90
D02 Technology in Rural Development	94
D03 Microcredit and Self-Help Groups	98
APPENDIX: EXAM-REPEAT POINTS	
APX 150 Exam-Repeat Points for Rural Banking	103

MODULE A: RURAL INDIA

A01 Demographic Features of Rural India

68.84%	83.31 cr	67.77%	949
of Indians lived in villages (Census 2011)	rural population, 2011	rural literacy rate (age 7+)	rural sex ratio (females per 1,000 males)

Start with the decision. Your branch serves 40 villages. The regional office asks whether to open a new service point or add a business correspondent. Before you look at deposits, you need to know who lives there: how many people, how old they are, how many can read, how many leave for work each season and what they do for a living. This chapter gives you those measures and shows how to read them.

Demography is the statistical study of a population: its size, growth, age and sex structure, literacy, health and movement. For a rural banker these numbers decide branch location, product design, staffing, the language of documents and the timing of loan repayments. India's official source is the **Census of India**, conducted by the Office of the Registrar General and Census Commissioner under the Census Act, 1948. The latest completed Census is **Census 2011**; the next, **Census 2027**, is under way.

1. What "rural" means in official statistics

The Census treats every area that is not urban as rural. An area is **urban** if it is either a **statutory town** (a place with a municipality, corporation, cantonment board or notified town area committee) or a **census town**. A census town meets all three tests: a population of at least 5,000; at least 75% of the male main workers engaged outside agriculture; and a density of at least 400 persons per sq km. Everything else, essentially the **revenue villages**, is rural.

Banks use a different classification for branch planning. RBI classifies centres by population into **rural** (below 10,000), **semi-urban** (10,000 to below 1 lakh), **urban** (1 lakh to below 10 lakh) and **metropolitan** (10 lakh and above), using the latest Census. Keep the two definitions apart: a village of 12,000 people is rural for the Census but a semi-urban centre for bank branch classification.

Classification	Census of India	RBI (bank branches)
Basis	Administrative status or the three census-town tests	Population of the centre
Rural	All areas that are not urban (villages)	Population below 10,000
Semi-urban	Not used	10,000 to 99,999
Urban	Statutory towns and census towns	1,00,000 to 9,99,999
Metropolitan	Not used	10,00,000 and above

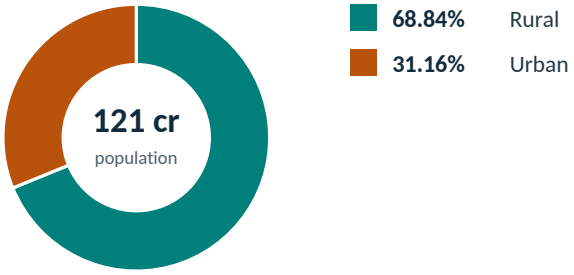
Memory trick

Census town = **5 - 75 - 400**: at least 5,000 people, at least 75% of male main workers outside farming, at least 400 persons per sq km. All three must be met.

2. Size and distribution of the rural population

Census 2011 counted **121.09 crore** people. Of these, **83.31 crore (68.84%)** lived in rural areas and **37.71 crore (31.16%)** in urban areas. The level of urbanisation rose from 27.81% in 2001 to 31.16% in 2011. For the first time since Independence, the absolute increase in population between two censuses was larger in urban areas (about 9.10 crore) than in rural areas (about 9.04 crore).

Where Indians lived, Census 2011



Two out of every three Indians lived in rural areas in 2011.

Share of rural population in India (%) by Census year



Rural share falls steadily as towns grow, but the absolute rural population is still rising.

The rural population is spread over more than six lakh villages. Uttar Pradesh, Bihar, West Bengal, Maharashtra and Madhya Pradesh together hold over half of it. States such as Himachal Pradesh and Bihar are close to 90% rural, while Goa, Kerala and Tamil Nadu are among the most urbanised. District-wise variation is even larger, which is why lead banks plan credit at district and block level.

3. Sex ratio and age structure

Sex ratio is the number of females per 1,000 males. Census 2011 recorded **943** for India, **949** for rural areas and **929** for urban areas. The **child sex ratio** (age 0 to 6) was 919, lower than the overall ratio, which signals continuing son preference. Rural sex ratios are higher partly because men migrate to towns for work and leave women, children and older people behind in the village.

The **age structure** is shown by a population pyramid. Rural India has a broad base: a larger share of children and young people than urban India, because rural fertility is higher. The **dependency ratio** compares people aged 0 to 14 and 65+ with those aged 15 to 64. A high dependency ratio means each earner supports more people, so the surplus available for loan repayment is smaller.

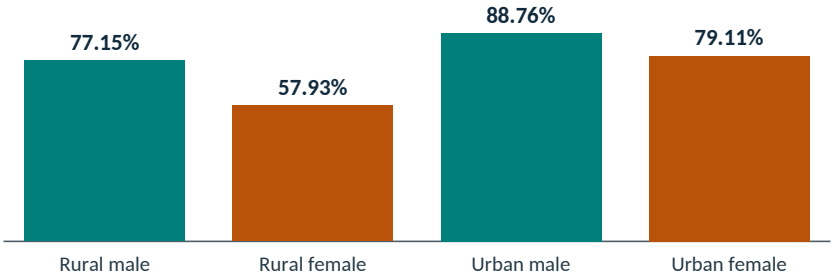
The working-age bulge is often called the **demographic dividend**. It becomes a dividend only if the young find productive work. For banks this means demand for skill loans, first-job accounts, micro-enterprise credit and insurance for young families.

4. Literacy and education

The Census defines a **literate** as a person aged seven or above who can read and write with understanding in any language. The literacy rate is therefore calculated on the population aged seven and above, not on the total population.

Literacy rate, Census 2011 (age 7+)	Total	Male	Female
India	72.99%	80.89%	64.64%
Rural	67.77%	77.15%	57.93%
Urban	84.11%	88.76%	79.11%

Literacy rate, Census 2011 (%)



Rural women have the lowest literacy; design documents and explanations accordingly.

Two gaps stand out: about 16 percentage points between urban and rural literacy, and about 19 points between rural men and rural women. The rural male literacy rate was even lower than the urban female rate. Low literacy affects banking directly: customers may sign or thumb-impress documents they cannot read, so banks must explain terms in the local language, read out key facts and record that the customer understood them.

Exam tip

Literacy is calculated on the population aged **seven and above**, not the whole population. Questions often offer "age 6" or "total population" as traps.

5. Occupation and the rural workforce

Census 2011 divides workers into **main workers** (worked six months or more in the reference year) and **marginal workers** (less than six months). Workers are further classified as **cultivators**, **agricultural labourers**, **household industry workers** and **other workers**. In rural India, cultivators and agricultural labourers together form the majority of workers.

Current labour data come from the **Periodic Labour Force Survey (PLFS)** of the National Statistics Office. From 2025 PLFS reports on a calendar-year basis and gives quarterly rural estimates. The PLFS Annual Report 2025 shows agriculture still employs the largest share of all workers, **43.0% in 2025** (44.8% in 2024), while the share in manufacturing is rising. In rural areas the agricultural share is much higher and swings with the season: it rose from 53.5% to 57.7% between the April to June and July to September 2025 quarters because of kharif operations.

- **Labour Force Participation Rate (LFPR)**: persons working or seeking work as a percentage of the population.
- **Worker Population Ratio (WPR)**: employed persons as a percentage of the population.
- **Unemployment Rate (UR)**: unemployed persons as a percentage of the labour force (not of the population).
- **Usual status** uses a one-year reference period; **Current Weekly Status (CWS)** uses the last seven days.

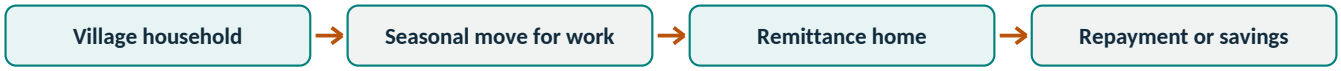
6. Health, nutrition and sanitation

Health indicators come mainly from the **National Family Health Survey (NFHS)** and the **Sample Registration System (SRS)**. The key measures are the infant mortality rate (deaths under one year per 1,000 live births), the maternal mortality ratio (maternal deaths per 1,00,000 live births), the total fertility rate, and child stunting, wasting and underweight. Rural values are generally worse than urban values, though the gap has narrowed.

Ill health is one of the most common reasons why a rural household that was repaying regularly suddenly defaults: medical expenditure is paid from savings, crop sale proceeds or informal borrowing. This is why bundling health insurance or accident cover with credit, and checking whether the family has coverage under a government health scheme, is sound credit practice and not just cross-selling.

7. Migration

Census 2011 recorded about 45.4 crore internal migrants, roughly 37.8% of the population, using the "place of last residence" definition. Most migration is within the same state and much of it is by women on marriage. Work-related migration from villages is often **seasonal** or **circular**: workers go to construction sites, brick kilns or cities for some months and return for sowing or harvest.



Remittances can support repayment, but they arrive in different months from crop income.

Banking implications: migrants need accounts and payment channels that work in both places, remittance products, and repayment schedules that match when money actually reaches the household. A loan file that shows only crop income may understate capacity in a migrant household, and a file that counts remittances as certain may overstate it.

At the branch

For a migrant household, credit remittances to the same account as crop proceeds and keep a mobile number that works in both places. Size the loan on local income; treat remittances as support, not as the main repayment source.

8. Census 2027: what is changing

The 16th Census, **Census 2027**, is India's first digital census and the first since Independence to enumerate caste for all communities. It has two phases. **Phase I, House-listing and Housing Census**, ran from 1 April to 30 September 2026, with each state using a 30-day window and an optional 15-day self-enumeration period. **Phase II, Population Enumeration**, is scheduled for February 2027. The reference date is **00:00 hours on 1 March 2027**, and **1 October 2026** for Ladakh, Jammu and Kashmir, Himachal Pradesh, Uttarakhand and other snow-bound areas.



Census 2027 timeline.

Check before use. Until Census 2027 results are published, Census 2011 remains the official source for population-based classifications, including RBI's population groups for bank branches. Check the latest RBI instruction before reclassifying any centre.

Key facts to remember

Fact	Detail
Rural population, Census 2011	83.31 crore, 68.84% of 121.09 crore
Urbanisation	27.81% (2001) to 31.16% (2011)
Sex ratio 2011	India 943; rural 949; urban 929; child (0-6) 919
Literacy 2011 (age 7+)	India 72.99%; rural 67.77%; urban 84.11%
Rural literacy by sex	Male 77.15%; female 57.93%
Census town tests	5,000+ population; 75%+ male main workers non-agricultural; 400+ per sq km
RBI rural centre	Population below 10,000
Agriculture share of workers	43.0% in 2025 (PLFS Annual Report 2025)
Census 2027 reference date	1 March 2027 (1 October 2026 in snow-bound areas)

Worked case

Situation. A block has 30 villages. Census data show 70% literacy among men but 52% among women, a dependency ratio well above the district average, and heavy seasonal migration of men to Gujarat between November and March. The branch wants to launch a dairy loan product with monthly instalments.

How to work it. Monthly instalments match daily milk income, which is good. But three adjustments help: (1) since many account holders at home will be women with lower literacy, use pictorial loan summaries and read terms aloud in the local language; (2) collect milk proceeds through the dairy society account to reduce cash handling; (3) allow remittance inflows from Gujarat to be credited to the same account, and do not count them as certain income when sizing the loan.

Quick revision

Remember	In one line
Census authority	Registrar General and Census Commissioner, under the Census Act, 1948.
Rural (Census)	Any area that is neither a statutory town nor a census town.
Rural (RBI)	A centre with population below 10,000.
Rural share 2011	68.84% of the population; 83.31 crore people.
Literacy base	Population aged 7 and above.
Sex ratio	Females per 1,000 males: 943 India, 949 rural, 929 urban (2011).
Unemployment rate	Unemployed as a share of the labour force, not of the population.
Census 2027	First digital census; caste enumerated; reference date 1 March 2027.

Practice with explanations

01. Which of these is NOT one of the three tests for a census town?

A. Population of at least 5,000
B. At least 75% of male main workers outside agriculture
C. Density of at least 400 persons per sq km
D. A notified municipal body

Answer D. A notified municipal body makes a place a statutory town. Census towns have no such body and are identified by the three tests.

02. According to Census 2011, the share of India's population living in rural areas was about:

A. 58.8%
B. 68.8%
C. 72.2%
D. 76.7%

Answer B. Rural areas held 68.84% of the population; 72.2% was the 2001 figure.

03. The literacy rate in the Census is calculated on:

A. The total population
B. Persons aged 6 and above
C. Persons aged 7 and above
D. Adults aged 15 and above

Answer C. A literate is a person aged seven or above who can read and write with understanding in any language.

04. Rural literacy rate as per Census 2011 was:

A. 57.93%
B. 67.77%
C. 72.99%
D. 84.11%

Answer B. 67.77% is rural; 72.99% is all-India; 84.11% is urban; 57.93% is rural female.

05. For classifying bank branches, RBI treats a centre as rural when its population is:

A. Below 5,000
B. Below 10,000
C. Below 50,000
D. Below 1 lakh

Answer B. Rural centres have population below 10,000; 10,000 to below 1 lakh is semi-urban.

06. The rural sex ratio in Census 2011 was:

A. 919
B. 929
C. 943
D. 949

Answer D. 949 is rural, 929 urban, 943 all-India and 919 the child sex ratio.

07. Which statement about Census 2011 is correct?

A. Rural population fell in absolute terms	**B.** The absolute increase was larger in urban than in rural areas
C. Urbanisation fell compared with 2001	**D.** Over 80% lived in villages

Answer B. For the first time since Independence, urban areas added more people than rural areas between two censuses.

08. The unemployment rate in PLFS is the number of unemployed persons as a percentage of:

A. Total population	**B.** Working-age population
C. Labour force	**D.** Employed persons

Answer C. Labour force = employed + unemployed (seeking or available for work).

09. As per the PLFS Annual Report 2025, the share of workers engaged in agriculture was about:

A. 33%	**B.** 43%
C. 53%	**D.** 63%

Answer B. It fell from 44.8% in 2024 to 43.0% in 2025, but agriculture remains the largest employer.

10. Current Weekly Status in PLFS uses a reference period of:

A. One day	**B.** Seven days
C. 30 days	**D.** 365 days

Answer B. CWS looks at the last seven days; usual status looks at the last 365 days.

11. The reference date for population enumeration in most of India under Census 2027 is:

A. 1 October 2026	**B.** 1 January 2027
C. 1 March 2027	**D.** 1 April 2027

Answer C. 00:00 hours on 1 March 2027; snow-bound areas use 1 October 2026.

12. Census 2027 is the first census since Independence to:

A. Count the rural population	**B.** Enumerate caste for all communities
C. Use a two-phase design	**D.** Count marginal workers

Answer B. Earlier censuses after Independence recorded only Scheduled Castes and Scheduled Tribes.

13. A household earns from crops, wage work and remittances. Which risk does a high dependency ratio point to?

A. More collateral	**B.** Lower surplus per earner for repayment
C. Higher literacy	**D.** Lower interest cost

Answer B. Each earner supports more dependants, so less income is left for instalments.

14. A main worker in the Census is a person who worked for:

A. At least 3 months	**B.** At least 6 months
C. At least 9 months	**D.** The full year

Answer B. Main workers worked six months or more in the reference year; marginal workers less than six months.

15. Why should a loan file treat migrant remittances with care?

A. They are illegal	**B.** They are taxed twice
C. They arrive in different months and are not guaranteed	**D.** They cannot be credited to a bank account

Answer C. Remittances are real income but seasonal and uncertain, so repayment schedules should match their timing and not depend on them alone.

Sources and dates used in this chapter

- Census of India 2011, Primary Census Abstract and rural-urban distribution (Office of the Registrar General and Census Commissioner).
- MoSPI, Periodic Labour Force Survey Annual Report 2025 (January to December 2025), released March 2026; PLFS Quarterly Bulletin, July to September 2025.
- Ministry of Home Affairs notifications on Census 2027 (June 2025 and January 2026).
- RBI population-group classification of centres (based on the latest Census).

MODULE A: RURAL INDIA

A02 Characteristics of Rural Society



29	1/3	5 years	24 April
subjects in the Eleventh Schedule	minimum seats for women in panchayats	term of every panchayat	National Panchayati Raj Day

Start with the decision. A sarpanch brings a list of 60 farmers for crop loans and offers to "guarantee" all of them. The list has no tenant farmers and only two women. Do you accept the list, reject it, or use it differently? To answer, you need to understand how village society is organised, who holds influence, and which institutions have legal standing.

Rural society is not just a smaller version of urban society. Relationships are personal and long-lasting, status is often inherited, land is the main source of wealth and power, and local institutions such as the Gram Panchayat, cooperatives and self-help groups shape who gets information, credit and public benefits. A banker who understands these features can design outreach that is fair and repayment arrangements that work.

1. Features of rural society

Feature	What it means	Why it matters to a banker
Primary relationships	People know each other personally over generations; reputation travels fast.	Social pressure supports repayment in groups, but also discourages people from reporting problems.
Agriculture-centred life	Work, festivals and spending follow the crop calendar.	Cash flows are seasonal; repayment dates should follow harvest and sale.
Joint and extended families	Several generations may share land, house and income.	Ownership of assets and income may be shared; documents must show who actually owns what.
Caste and kinship	Social groups influence occupation, marriage and access to village resources.	Exclusion can be hidden; outreach must reach every group directly.
Land as status	Owning land brings credit-worthiness and voice in the village.	Tenants and landless workers are often left out of formal credit.
Slower change	Customs and traditional practices change gradually.	New products need demonstration and trusted local channels.

These features are changing. Better roads, mobile phones, television, migration and education have weakened traditional occupations and the old patron-client **jajmani system**, in which service castes received a fixed share of grain in return for hereditary services. Non-farm work, remittances and government transfers are now important in many villages.

2. Social stratification: caste, class and gender

Rural inequality has three overlapping dimensions. **Caste** is inherited and can still shape access to land, water sources and local power. **Class** follows land ownership and occupation: large landowners, small and marginal farmers, tenants, sharecroppers and landless labourers. **Gender** cuts across both: women do a large part of farm and livestock work but own a small share of land. The Agriculture Census 2015-16 found that only about 14% of operational holders were women.

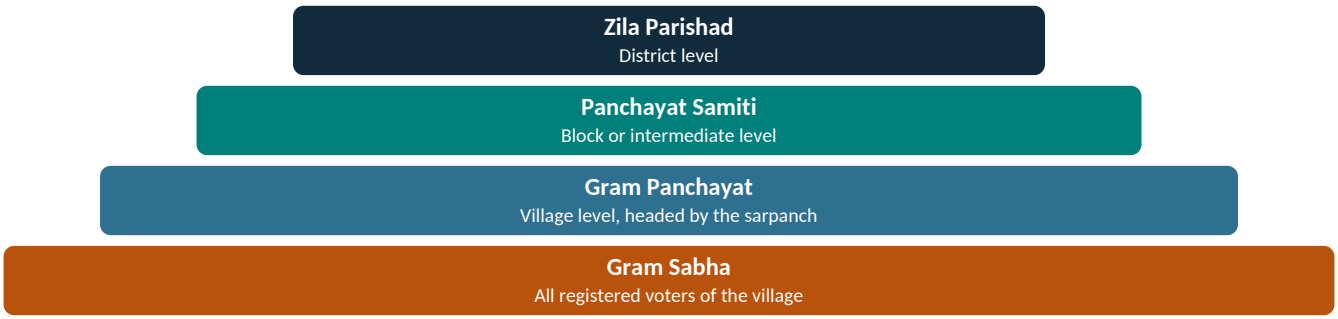
The Constitution prohibits discrimination and untouchability (Articles 15 and 17) and allows special provisions for Scheduled Castes, Scheduled Tribes and socially and educationally backward classes. Banks support these goals through priority sector targets, concessions in government-sponsored schemes and special outreach, which you will study in Module C.

3. Panchayati Raj: the legal framework

The **73rd Constitutional Amendment Act, 1992** gave constitutional status to Panchayati Raj institutions (PRIs). It added **Part IX** (Articles 243 to 243O) and the **Eleventh Schedule**, which lists **29 subjects** that states may devolve to panchayats, such as agriculture, minor irrigation, animal husbandry, drinking water, rural housing, roads, poverty alleviation and primary education.

The Act came into force on **24 April 1993**, which is observed as National Panchayati Raj Day.

There are three tiers. States with population below 20 lakh need not constitute the intermediate tier.



The Panchayati Raj structure: fewest bodies at the top, the whole village at the base.

Provision	Article	What it says
Gram Sabha	243(b), 243A	Body of all persons on the electoral roll of the village; powers as given by state law.
Three tiers	243B	Village, intermediate and district levels; intermediate optional below 20 lakh state population.
Reservation	243D	Seats for SC/ST in proportion to population; not less than one-third for women, including chairpersons.
Term	243E	Five years; fresh elections before expiry, or within six months of dissolution.
Finance Commission	243I	State Finance Commission every five years to review panchayat finances.
Elections	243K	State Election Commission conducts panchayat elections.
Eleventh Schedule	243G	Powers and responsibilities on 29 subjects, as the state decides.

Memory trick

73 is for villages, 74 is for towns. 73rd Amendment: Part IX, Eleventh Schedule, 29 subjects. 74th Amendment: Part IXA, Twelfth Schedule, 18 subjects.

The **Panchayats (Extension to the Scheduled Areas) Act, 1996 (PESA)** extends Part IX to Fifth Schedule areas with special powers for the Gram Sabha over minor forest produce, land acquisition consultation, village markets and money lending. Several states have raised the reservation for women in panchayats from one-third to 50% through their own laws.

Gram Sabha and Gram Panchayat are different. The Gram Sabha is the assembly of all registered voters; it approves plans, selects beneficiaries for many schemes and conducts social audits. The Gram Panchayat is the elected executive body headed by the sarpanch or pradhan. Each panchayat prepares a **Gram Panchayat Development Plan (GPDP)** every year, which banks can use to understand local priorities.

Gram Sabha

- All persons on the village electoral roll
- Deliberative body: approves plans and beneficiary lists
- Conducts social audits
- Meets as provided in state law

Gram Panchayat

- Elected ward members and sarpanch
- Executive body: implements works and schemes
- Prepares the Gram Panchayat Development Plan
- Five-year term; elected by State Election Commission process

4. Community institutions

Institution	Membership and purpose	Link with banks
Self-help group (SHG)	10 to 20 members, mostly women, who save regularly and lend internally.	Savings account, then credit under SHG-bank linkage (Module D).
Joint liability group (JLG)	4 to 10 individuals, often tenants or small farmers, who borrow individually with a mutual guarantee.	Credit without land collateral (Module D).

Institution	Membership and purpose	Link with banks
Primary agricultural credit society (PACS)	Member-owned cooperative at village level.	Short-term crop loans through the cooperative structure (Module B).
Farmer producer organisation (FPO)	Producers who aggregate inputs and outputs.	Working capital and term loans; credit guarantee support.
Dairy or fishery cooperative	Members selling a common product.	Payments routed to member accounts; check-off for repayment.

Social capital, the trust and networks inside a community, makes these institutions work. It lowers the cost of screening and monitoring borrowers. But the same networks can exclude outsiders, and local elites can capture group benefits. Check who attends meetings, who keeps the books and whether every member can explain the group's savings and loans.

5. NIRDPR and training for rural development

The **National Institute of Rural Development and Panchayati Raj (NIRDPR)**, Hyderabad, is an autonomous organisation under the Ministry of Rural Development. It trains officials, elected representatives and bankers, conducts research and evaluates programmes. State Institutes of Rural Development (SIRDs) do similar work in each state. Banks contribute through **Rural Self Employment Training Institutes (RSETIs)**, one per district, sponsored by the lead bank, which train rural youth for self-employment.



At the branch

Before a credit camp, ask the Gram Panchayat for the GPDP and the list of SHGs, and announce the camp in the Gram Sabha. Open announcements reach tenants and women whom private lists often miss.

6. Informal credit and the moneylender

Rural households have long borrowed from moneylenders, traders, landlords, relatives and friends. Informal credit is quick, needs few documents and is available at any hour, but it is costly and is often tied to other deals: the trader who lends may insist on buying the crop at a low price, or the landlord may demand labour. Most states have Money Lenders Acts that require registration and cap interest. Formal credit reaches more households than before, yet many still use both sources together.

- Ask about all existing debts, formal and informal, and the terms attached to them.
- A loan that only repays a moneylender, without raising income, does not solve the problem; it may still be useful if it cuts interest cost substantially and the borrower can service it.
- Interlinked deals (credit tied to crop sale) reduce the price the farmer gets; factor this into cash-flow estimates.

Worked case

Situation. The sarpanch's list of 60 farmers omits tenants and includes only two women. The sarpanch offers to stand guarantee.

How to work it. Treat the list as a lead, not as approval. A guarantee from an influential person does not replace appraisal of each borrower. Hold an open camp announced in the Gram Sabha, invite SHG federations and tenant farmers, and offer JLG loans to tenants who lack land records. Appraise each applicant on eligibility, land or cultivation evidence and repayment capacity. Record why any applicant was declined.

Key facts to remember

Fact	Detail
73rd Amendment	Act of 1992; in force 24 April 1993 (National Panchayati Raj Day)
Constitutional location	Part IX, Articles 243 to 243O; Eleventh Schedule
Subjects in Eleventh Schedule	29
Tiers	Village, intermediate (block), district; intermediate optional where state population is below 20 lakh
Women's reservation	Not less than one-third of seats and chairpersons (Article 243D)

Fact	Detail
Panchayat term	Five years (Article 243E)
Elections	State Election Commission (Article 243K)
PESA	1996; extends panchayats to Fifth Schedule areas
NIRDPR	Hyderabad; autonomous, under Ministry of Rural Development
Women operational holders	About 14% (Agriculture Census 2015-16)

Quick revision

Remember	In one line
Gram Sabha	All registered voters of the village; approves plans and beneficiaries.
Gram Panchayat	Elected village body headed by the sarpanch or pradhan.
73rd Amendment	1992; Part IX; Eleventh Schedule with 29 subjects.
Article 243D	Reservation: SC/ST by population, at least one-third for women.
PESA	1996 law for panchayats in Fifth Schedule (tribal) areas.
Jajmani	Traditional exchange of hereditary services for a share of grain.
Social capital	Trust and networks that lower screening costs but can exclude outsiders.
RSETI	Lead-bank sponsored self-employment training institute in each district.

Practice with explanations

01. The 73rd Constitutional Amendment added which part to the Constitution?

A. Part VIII
B. Part IX
C. Part IXA
D. Part X

Answer B. Part IX (Articles 243 to 243O) covers panchayats. Part IXA was added by the 74th Amendment for municipalities.

02. How many subjects are listed in the Eleventh Schedule?

A. 18
B. 22
C. 29
D. 47

Answer C. The Eleventh Schedule lists 29 subjects; the Twelfth Schedule lists 18 for municipalities.

03. National Panchayati Raj Day is observed on:

A. 2 October
B. 24 April
C. 26 January
D. 15 August

Answer B. The 73rd Amendment came into force on 24 April 1993.

04. The Gram Sabha consists of:

A. Elected ward members only
B. All persons on the electoral roll of the village
C. Heads of households
D. Members of SHGs

Answer B. Article 243(b) defines the Gram Sabha as the body of persons registered in the electoral rolls of the village.

05. The intermediate tier of panchayats may be skipped in states with population below:

A. 10 lakh
B. 20 lakh
C. 50 lakh
D. 1 crore

Answer B. Article 243B allows states with population below 20 lakh not to constitute the intermediate level.

06. The minimum reservation for women in panchayat seats under the Constitution is:

A. One-fourth
B. One-third
C. One-half
D. Two-thirds

Answer B. Article 243D requires not less than one-third; several states provide 50% by state law.

07. Who conducts elections to panchayats?

A. Election Commission of India	**B.** State Election Commission
C. District Collector	**D.** Ministry of Panchayati Raj

Answer B. Article 243K vests superintendence of panchayat elections in the State Election Commission.

08. PESA, 1996 applies to:

A. Sixth Schedule areas	**B.** Fifth Schedule areas
C. Metropolitan areas	**D.** Union territories only

Answer B. PESA extends Part IX with modifications to Fifth Schedule (scheduled) areas.

09. NIRDPR is located in:

A. Anand	**B.** Pune
C. Hyderabad	**D.** Lucknow

Answer C. The National Institute of Rural Development and Panchayati Raj is in Hyderabad.

10. A State Finance Commission is constituted every:

A. Two years	**B.** Three years
C. Five years	**D.** Ten years

Answer C. Article 243I: every five years, to review the financial position of panchayats.

11. The jajmani system refers to:

A. A land revenue system	**B.** Exchange of hereditary services for a share of produce
C. A cooperative credit system	**D.** A form of crop insurance

Answer B. Service castes received a fixed share of grain from landowning families for traditional services.

12. What is the main banking risk of informal credit tied to crop sale?

A. Higher land value	**B.** Lower price realised by the farmer
C. More insurance cover	**D.** Faster loan sanction

Answer B. Interlinked credit often forces the farmer to sell to the lender at a lower price, reducing net income.

13. A local leader offers to guarantee all loans on his list. The best response is to:

A. Accept it and sanction quickly	**B.** Reject all applicants on the list
C. Use the list as a lead and appraise each applicant, reaching excluded groups too	**D.** Ask the leader for a cash deposit

Answer C. Each borrower must be appraised individually, and outreach must include those the list left out.

14. RSETIs are sponsored by:

A. NABARD	**B.** The lead bank of the district
C. State Election Commission	**D.** Gram Panchayat

Answer B. Rural Self Employment Training Institutes are run by banks, generally the lead bank, in each district.

15. According to Agriculture Census 2015-16, the share of women among operational holders was about:

A. 4%	**B.** 14%
C. 24%	**D.** 34%

Answer B. About 14% (13.96% in the final results); it is rising but remains low.

Sources and dates used in this chapter

- Constitution of India, Part IX (Articles 243 to 243O) and Eleventh Schedule, as amended by the Constitution (73rd Amendment) Act, 1992.
- Panchayats (Extension to the Scheduled Areas) Act, 1996.
- Agriculture Census 2015-16, Ministry of Agriculture and Farmers Welfare.
- Ministry of Rural Development: NIRDPR and RSETI programme information.

MODULE A: RURAL INDIA

A03 Economic Features of Rural India

₹12,698
average monthly rural household income, 2021-22

52%
rural households with outstanding debt

₹4,122
rural MPCE, 2023-24

11.28%
multidimensional poverty, 2022-23

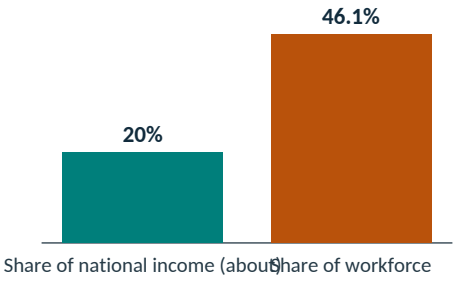
Start with the decision. A farmer family asks for a ₹3 lakh loan to buy a tractor-trolley for hire. Their income comes from two acres of crops, a buffalo, the son's wages in town and occasional hiring work. How do you measure what this household really earns, how stable it is, and whether it is poor or not? This chapter gives you the measures used in national statistics and shows how to apply them to one household.

The rural economy is no longer only farming. Households combine crop income, livestock, wages, small business, salaries, remittances and government transfers. Income is low on average, highly seasonal and exposed to weather and price shocks. National surveys measure these features through income, consumption and poverty indicators. A banker needs both the national picture and the discipline to rebuild it for each borrower.

1. The structure of the rural economy

Agriculture and allied activities (crops, livestock, forestry and fishing) contribute **nearly one-fifth of India's national income at current prices** but employ a much larger share of workers: the Economic Survey 2025-26 puts it at 46.1% of the workforce. This gap is the core economic feature of rural India: too many people depend on a sector that produces a modest share of output, so income per worker in agriculture is low.

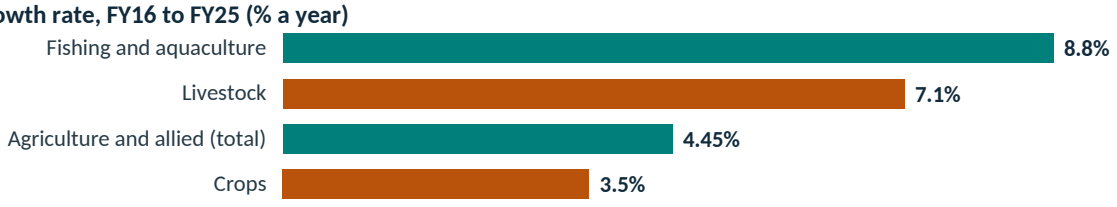
Agriculture and allied: share of output vs share of jobs (%)



Nearly one-fifth of income but 46.1% of workers: the core reason farm incomes per worker are low.

Within agriculture, growth has come mainly from **allied activities**. Over FY16 to FY25 the sector grew about 4.45% a year, led by fishing and aquaculture (8.8%) and livestock (7.1%), with crops at 3.5%. Horticulture now accounts for about one-third of agricultural gross value added. For banks this means more lending opportunity in dairy, poultry, fisheries and horticulture than in field crops alone.

Decadal growth rate, FY16 to FY25 (% a year)



Source: Economic Survey 2025-26, chapter on agriculture.

2. GDP, GVA and where the rural economy fits

Gross value added (GVA) is the value of output minus intermediate consumption. Adding net product taxes gives GDP: **GDP = GVA at basic prices + product taxes - product subsidies**. Sector shares (agriculture, industry, services) are measured on GVA. Real (constant-price) figures remove inflation; nominal (current-price) figures do not. When a source says agriculture's "share", check which one it uses.

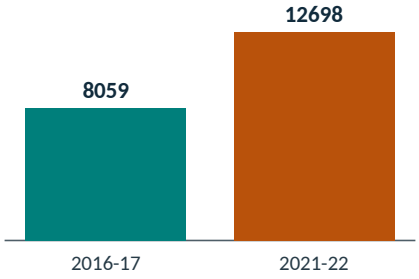
Sector	Typical rural activities	Lending products
Primary	Crops, dairy, poultry, fisheries, forestry	Crop loans and KCC, investment credit for allied activities
Secondary	Agro-processing, rural industry, construction, artisans	MSME term loans and working capital, housing
Tertiary	Trade, transport, repairs, education, health, BC services	Shop and vehicle loans, Mudra loans, overdrafts

3. Rural incomes: what household surveys show

NABARD's **All India Rural Financial Inclusion Survey (NAFIS) 2021-22**, based on about one lakh rural households, gives a direct picture. Average monthly household income rose 57.6% from ₹8,059 in 2016-17 to **₹12,698 in 2021-22**, a nominal growth of about 9.5% a year. Agricultural households earned ₹13,661 a month and non-agricultural households ₹11,438. Average monthly expenditure rose to ₹11,262.

Indicator, NAFIS	2016-17	2021-22
Average monthly income per household	₹8,059	₹12,698
Average monthly expenditure per household	₹6,646	₹11,262
Annual average financial savings per household	₹9,104	₹13,209
Households that saved	50.6%	66.0%
Households with outstanding debt	47.4%	52.0%
Average land possessed	1.08 ha	0.74 ha

Average monthly rural household income (₹)



NAFIS: up 57.6% in five years, about 9.5% a year in nominal terms.

Three lessons follow. First, income and expenditure are close, so the surplus available for repayment is thin. Second, more households are borrowing. Third, landholdings are shrinking, so farm income alone rarely supports large loans. NAFIS also found that 44% of agricultural households had a valid Kisan Credit Card. For non-agricultural households, salaried jobs provided about 57% of income and wage labour about 26%.

4. Consumption and inequality

The **Household Consumption Expenditure Survey (HCES)** of the National Statistics Office measures monthly per capita consumption expenditure (MPCE). In **HCES 2023-24**, average MPCE was **₹4,122 in rural areas** and ₹6,996 in urban areas (₹4,247 and ₹7,078 including the imputed value of free items received under welfare schemes). The urban-rural gap narrowed from about 84% in 2011-12 to about 70% in 2023-24. Non-food items made up about 53% of rural spending. Consumption inequality, measured by the **Gini coefficient**, fell to 0.237 in rural areas (0.266 in 2022-23).

The Gini coefficient ranges from 0 (everyone consumes the same) to 1 (one person consumes everything). A falling rural Gini means consumption is spreading more evenly, though it says nothing about whether incomes are secure.

5. Poverty: two ways of measuring it

Income or consumption poverty counts people whose spending falls below a poverty line. The last official estimates used the Tendulkar method for 2011-12: 25.7% of the rural population and 13.7% of the urban population were below the line (21.9% overall). The Rangarajan Committee (2014) proposed higher lines, giving 30.9% rural poverty for the same year, but its method was not formally adopted.

Multidimensional poverty looks at deprivations rather than money. NITI Aayog's National Multidimensional Poverty Index uses **12 indicators** across health, education and standard of living (including nutrition, schooling, cooking fuel, sanitation, drinking water, electricity, housing, assets and bank accounts). A person deprived in a third or more of the weighted indicators is "MPI poor". Its estimates:

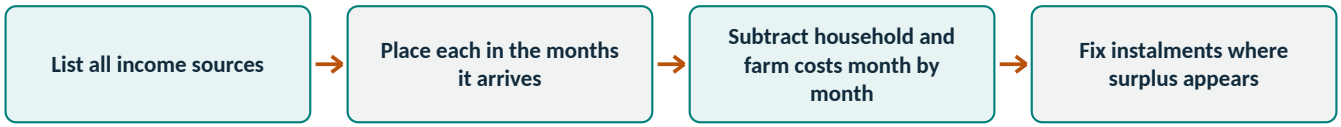
- Rural multidimensional poverty fell from **32.59% in 2015-16 to 19.28% in 2019-21** (urban: 8.65% to 5.27%).
- All-India headcount fell from **29.17% in 2013-14 to 11.28% in 2022-23**, with about **24.82 crore** people moving out of multidimensional poverty.
- Uttar Pradesh, Bihar and Madhya Pradesh recorded the largest declines in the number of poor.

Consumption poverty	Multidimensional poverty (MPI)
• Counts people below a money poverty line	• Counts deprivations in health, education, living standard
• Last official estimate: Tendulkar, 2011-12	• 12 weighted indicators; poor if deprived in one-third or more
• Rural 25.7%, urban 13.7%	• All-India 29.17% (2013-14) to 11.28% (2022-23)
• Measures spending, not deprivation	• Says nothing directly about income

The two measures answer different questions. A family may have a bank account, electricity and a pucca house (not MPI poor) and still have an income too low and too irregular to service a loan. Never treat a poverty statistic as a credit assessment.

6. Seasonality, risk and indebtedness

Rural cash flows bunch around harvests. Expenses peak at sowing, for festivals and weddings and during illness. Weather, pests and price falls hit many households in the same area at once (covariate risk), so diversification within a village gives less protection than it seems. Debt taken to smooth consumption is not wrong in itself, but repeated borrowing to repay old loans is a warning sign.



A household cash-flow calendar is the basic tool for rural credit appraisal.

At the branch

A cash-flow calendar on one page, months across and income sources down, is the most useful document in a rural loan file. It shows when instalments can be paid and which months are risky.

7. The Sustainable Development Goals

The UN **2030 Agenda**, adopted in 2015, set **17 Sustainable Development Goals** and 169 targets for 2030. Goals 1 (no poverty), 2 (zero hunger), 5 (gender equality), 6 (clean water and sanitation), 8 (decent work) and 10 (reduced inequality) are central to rural development. NITI Aayog publishes an SDG India Index to track state performance. Rural lending contributes when it finances productive livelihoods, women's enterprises and resilience, not just when it adds to the number of loans.

Exam tip

NAFIS figures come in pairs: ₹12,698 is **income** of all rural households; ₹11,262 is **expenditure**; ₹13,661 is income of **agricultural** households. Read the question carefully.

Worked case

Situation. The tractor-trolley household: 2 acres of paddy and wheat, one buffalo, a son earning ₹9,000 a month in town who sends ₹4,000 home, and expected hire income of ₹8,000 a month for six months. Household spending is about ₹11,000 a month.

How to work it. Build the year month by month. Crop net income arrives in two lumps (after kharif and rabi). Milk gives a steady small surplus. Remittances are regular but could stop. Hire income is seasonal and competitive, so test it at half the projection. If repayment depends mainly on hire income, align instalments with the hiring season (half-yearly or seasonal), insure the asset, and keep the loan within what crops plus milk can cover in a bad year.

Key facts to remember

Fact	Detail
Agriculture's share	Nearly one-fifth of national income (current prices); 46.1% of workforce (Economic Survey 2025-26)
Allied growth	Fishing 8.8%, livestock 7.1%, crops 3.5% a year (FY16 to FY25)
NAFIS 2021-22 income	₹12,698 a month (all rural households); ₹13,661 agricultural; ₹11,438 non-agricultural
NAFIS indebtedness	52.0% of rural households had outstanding debt (47.4% in 2016-17)
HCES 2023-24 MPCE	Rural ₹4,122; urban ₹6,996 (without imputation)
Rural Gini, consumption	0.237 in 2023-24
Tendulkar poverty 2011-12	Rural 25.7%; urban 13.7%; all-India 21.9%
National MPI	29.17% (2013-14) to 11.28% (2022-23); 24.82 crore moved out
SDGs	17 goals, 169 targets, adopted 2015, target year 2030

Quick revision

Remember	In one line
GDP and GVA	GDP = GVA + product taxes - product subsidies.
Core rural problem	Large share of workers, smaller share of output, so low income per worker.
NAFIS	NABARD survey: rural household income ₹12,698 a month in 2021-22.
HCES	MoSPI consumption survey: rural MPCE ₹4,122 in 2023-24.
Gini coefficient	0 = perfect equality, 1 = perfect inequality.
MPI	12 indicators; poor if deprived in one-third or more of weighted indicators.
Covariate risk	One shock hits many borrowers in the same area at the same time.
Cash-flow calendar	Map income and costs month by month before fixing instalments.

Practice with explanations

01. GDP at market prices equals GVA at basic prices plus:

A. Depreciation
B. Product taxes minus product subsidies
C. Net factor income from abroad
D. Indirect taxes plus subsidies

Answer B. Product taxes are added and product subsidies deducted to move from GVA to GDP.

02. As per NAFIS 2021-22, the average monthly income of a rural household was:

A. ₹8,059
B. ₹11,262
C. ₹12,698
D. ₹13,661

Answer C. ₹12,698 for all rural households; ₹13,661 is for agricultural households; ₹11,262 is expenditure.

03. NAFIS is conducted by:

A. NSO	**B.** RBI
C. NABARD	**D.** NITI Aayog

Answer C. NAFIS is NABARD's All India Rural Financial Inclusion Survey.

04. The share of rural households with outstanding debt in NAFIS 2021-22 was:

A. 37.4%	**B.** 47.4%
C. 52.0%	**D.** 66.0%

Answer C. It rose from 47.4% in 2016-17 to 52.0% in 2021-22. 66% is the share of households that saved.

05. Average rural MPCE in HCES 2023-24 (without imputation) was:

A. ₹3,773	**B.** ₹4,122
C. ₹4,247	**D.** ₹6,996

Answer B. ₹4,122; ₹4,247 includes imputed free items; ₹3,773 was 2022-23; ₹6,996 is urban.

06. A Gini coefficient of 0 indicates:

A. Perfect inequality	**B.** Perfect equality
C. No data	**D.** Zero poverty

Answer B. Zero means every unit has the same income or consumption.

07. How many indicators does NITI Aayog's National MPI use?

A. 3	**B.** 10
C. 12	**D.** 17

Answer C. Twelve indicators across health, education and standard of living, including bank accounts.

08. Multidimensional poverty in rural India between 2015-16 and 2019-21 fell from:

A. 29.17% to 11.28%	**B.** 32.59% to 19.28%
C. 25.7% to 13.7%	**D.** 8.65% to 5.27%

Answer B. 32.59% to 19.28% is rural; 29.17% to 11.28% is all-India for 2013-14 to 2022-23; 8.65% to 5.27% is urban.

09. Under the Tendulkar method, rural poverty in 2011-12 was:

A. 13.7%	**B.** 21.9%
C. 25.7%	**D.** 30.9%

Answer C. 25.7% rural; 13.7% urban; 21.9% all-India; 30.9% is the Rangarajan estimate.

10. Which sub-sector grew fastest within agriculture and allied activities over FY16 to FY25?

A. Crops	**B.** Livestock
C. Fishing and aquaculture	**D.** Forestry

Answer C. Fishing and aquaculture grew about 8.8% a year, ahead of livestock at 7.1%.

11. Horticulture accounts for roughly what share of agricultural GVA?

A. One-tenth	**B.** One-fifth
C. One-third	**D.** One-half

Answer C. The Economic Survey 2025-26 puts it at about 33%.

12. Covariate risk in rural lending means:

A. Risk of one borrower's fraud	**B.** A shock affecting many borrowers in an area at the same time
C. Interest rate risk on deposits	**D.** Risk of documentation errors

Answer B. Drought or a price crash hits many borrowers together, so village-level diversification is limited.

13. A household is not MPI poor. Which conclusion is valid?

A. It can repay any loan	**B.** Its income is above the poverty line
C. It is not deprived in a third or more of the weighted indicators	**D.** It has no debt

Answer C. MPI measures deprivations, not income or repayment capacity.

14. The SDGs were adopted in:

A. 2000	**B.** 2010
C. 2015	**D.** 2020

Answer C. The 2030 Agenda with 17 SDGs was adopted by the UN in September 2015.

15. Which is the best first step in appraising a mixed-income rural household?

A. Ask for a guarantor	**B.** Build a month-by-month cash-flow calendar
C. Use the district average income	**D.** Count only crop income

Answer B. Income sources arrive at different times; a calendar shows when surplus actually exists.

Sources and dates used in this chapter

- Economic Survey 2025-26, Government of India (January 2026), chapter on agriculture and food management.
- NABARD, All India Rural Financial Inclusion Survey (NAFIS) 2021-22, released October 2024.
- MoSPI, Household Consumption Expenditure Survey 2023-24, fact sheet (December 2024).
- NITI Aayog, National Multidimensional Poverty Index: A Progress Review 2023; discussion paper, Multidimensional Poverty in India since 2005-06 (January 2024).
- Planning Commission, poverty estimates for 2011-12 (Tendulkar method); Rangarajan Expert Group report (2014).

MODULE A: RURAL INDIA

A04 Rural Infrastructure

62,500 km
all-weather roads under PMGSY-IV

82%
rural homes with tap water (2026)

3%
AIF interest subvention up to ₹2 crore

1995-96
RIDF set up in NABARD

Start with the decision. Two villages want a cold-storage unit financed. Village A has an all-weather road, three-phase power for 20 hours a day and a mandi 15 km away. Village B is cut off for six weeks in the monsoon and has single-phase power. The project reports look identical on paper. Which one will repay? Infrastructure often decides the answer before the borrower does.

Rural infrastructure is the set of physical and digital facilities that let people produce, move, store, sell and live: roads, power, irrigation, drinking water, sanitation, housing, storage, markets, telecommunications, schools and health centres. Good infrastructure raises productivity and lowers costs; poor infrastructure makes even a sound project fail. Banks finance infrastructure directly (warehouses, cold chains, solar pumps), indirectly through NABARD funds, and depend on public infrastructure for the success of almost every rural loan.

1. Types of rural infrastructure

Type	Examples	Main public programme or fund
Economic	Roads, bridges, irrigation, electricity, storage, markets	PMGSY, PM-KUSUM, RIDF, Agriculture Infrastructure Fund
Social	Drinking water, sanitation, housing, schools, health centres	Jal Jeevan Mission, Swachh Bharat Mission (Grameen), PMAY-G
Digital	Broadband, mobile networks, common service centres	BharatNet, Common Service Centres
Institutional	Bank branches, BC points, cooperatives, FPOs	Financial inclusion plans, PACS computerisation

2. Rural roads: PMGSY

The **Pradhan Mantri Gram Sadak Yojana (PMGSY)** was launched in December 2000 to give all-weather road connectivity to eligible unconnected habitations. It has run in phases: PMGSY-I for new connectivity, PMGSY-II (2013) for upgrading existing roads, PMGSY-III (2019) for consolidating about 1.25 lakh km of through routes linking habitations to agricultural markets, higher secondary schools and hospitals, and a separate road programme for Left Wing Extremism areas.



Phases of PMGSY.

PMGSY-IV was approved in September 2024 for **FY 2024-25 to 2028-29** with an outlay of **₹70,125 crore** (Centre ₹49,087.50 crore, states ₹21,037.50 crore). It will build **62,500 km** of all-weather roads to connect **25,000** unconnected habitations: population 500+ in the plains, 250+ in north-eastern and hill states and special category areas, and 100+ in LWE-affected districts, as per Census 2011. Road alignments are planned on the PM Gati Shakti portal.

Why it matters for credit: an all-weather road cuts transport cost and spoilage, brings input dealers and buyers to the village, and lets bank staff and BCs visit borrowers through the year. Many loans that look risky are really infrastructure risks.

3. Electricity and energy

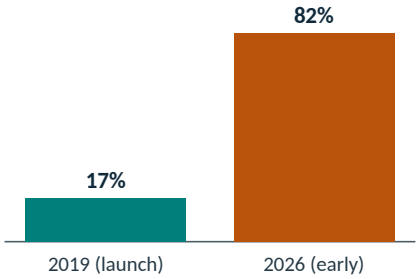
Village electrification was completed under the Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY, 2014), which also separated agricultural feeders from household feeders, and household connections under **Saubhagya** (2017). The issue now is reliability and quality of supply rather than access: hours of supply, voltage and the separate feeder schedule for farm pumps.

PM-KUSUM (2019) supports solar power in agriculture: decentralised solar plants on barren land, standalone solar pumps and solarisation of existing grid-connected pumps. Farmers can finance their share through bank loans. Solar pumps cut diesel costs and can generate income from surplus power sold to the distribution company where the state scheme allows it.

4. Drinking water and sanitation

The **Jal Jeevan Mission (JJM)**, launched on 15 August 2019, aims to give every rural household a **functional household tap connection** supplying at least **55 litres per person per day**. When it started, 3.23 crore rural households (about 17%) had tap connections. By early 2026 about 15.8 crore of 19.36 crore rural households (about 82%) were covered. In March 2026 the Cabinet extended the mission (**JJM 2.0**) to **December 2028** with a total outlay of about ₹8.7 lakh crore, shifting the focus from building pipes to reliable service delivery.

Rural households with tap water connections (%)



Source: Ministry of Jal Shakti, as reported at the Cabinet extension, March 2026.

The **Swachh Bharat Mission (Grameen)** began on 2 October 2014 and declared rural India open-defecation free in 2019. Phase II focuses on **ODF Plus**: sustaining toilet use and managing solid and liquid waste. Clean water and sanitation reduce illness, which, as Chapter A01 showed, is a frequent cause of rural loan default.

Did you know?

JJM tap coverage rose from 3.23 crore households (about 17%) in August 2019 to about 15.8 crore (about 82%) by early 2026, out of 19.36 crore rural households.

5. Storage, warehousing and markets

Without storage, farmers must sell at harvest when prices are lowest. Scientific warehouses and cold chains let them wait for better prices and borrow against stored produce. The **Warehousing Development and Regulatory Authority (WDRA)**, set up under the Warehousing (Development and Regulation) Act, 2007, registers warehouses and regulates **negotiable warehouse receipts**; electronic receipts (e-NWRs) make pledge loans easier and safer for banks.



Post-harvest pledge finance against warehouse receipts reduces distress sales.

The **Agriculture Infrastructure Fund (AIF)**, approved in July 2020, is a central sector financing facility for post-harvest management infrastructure and community farming assets: warehouses, silos, cold stores, sorting and grading units, ripening chambers and logistics. Loans from banks and financial institutions carry **3% a year interest subvention** on loans up to **₹2 crore** for up to seven years, with credit guarantee cover through CGTMSE for eligible loans up to ₹2 crore. The scheme runs from 2020-21 to 2032-33. FPOs, PACS, cooperatives, agri-entrepreneurs, start-ups and individual farmers are eligible.

Check before use. The original AIF financing facility was ₹1 lakh crore; the Government has since announced an increase in the target. Check the current AIF guidelines on the scheme portal for the target, eligible activities and the lending-rate cap before advising a borrower.

At the branch

For a warehouse receipt loan, check that the warehouse is WDRA-registered, the e-NWR is issued through an approved repository, the commodity is insured, and the margin covers a price fall until the likely sale date.

6. NABARD funds for rural infrastructure

The **Rural Infrastructure Development Fund (RIDF)** was set up in NABARD in **1995-96**. Its resources come from deposits placed by scheduled commercial banks to the extent of their shortfall in priority sector lending targets. NABARD lends from RIDF to **state governments** and state-owned bodies for rural roads and bridges, irrigation, watershed, drinking water, health, education and agriculture-related infrastructure. The first tranche (RIDF-I) was ₹2,000 crore; a new tranche is announced in each Union Budget. Recoveries from states rotate into fresh sanctions.

Sister funds include the Long Term Irrigation Fund, the Micro Irrigation Fund, the Warehouse Infrastructure Fund, the Dairy Processing and Infrastructure Development Fund, and **NABARD Infrastructure Development Assistance (NIDA)** for state-owned entities outside the budget. RIDF appraisal differs from a bank loan appraisal: a feeder road has no user charges, so repayment comes from the state budget, not from the project.

Exam tip

RIDF lends to **state governments**, not to individuals or banks. Its money comes from banks' **priority sector shortfall** deposits.

7. Digital and financial infrastructure

BharatNet is laying optical fibre to connect all gram panchayats with broadband. **Common Service Centres** deliver government and private services, and many act as bank business correspondents. Together with Aadhaar-enabled payments, UPI and RuPay cards, they are why rural account holders can now transact without visiting a branch. Their weak points, power cuts, poor connectivity and BC cash shortages, are covered in Module D.

Worked case

Situation. The cold-storage proposals for Village A and Village B have the same capacity, cost and projected occupancy of 70%.

How to work it. Re-test the assumptions against infrastructure. For Village B: can produce reach the unit and leave it during the six monsoon weeks? Can single-phase power run the compressors, and what will a diesel generator or solar back-up add to cost? Revise occupancy and operating cost before sanction. Village A's project may be bankable as proposed; Village B's may need back-up power, a lower loan and AIF interest subvention to be viable, or should wait for the road.

Key facts to remember

Fact	Detail
PMGSY launched	December 2000
PMGSY-IV	FY 2024-25 to 2028-29; ₹70,125 crore; 62,500 km; 25,000 habitations
PMGSY-IV population norm	500+ plains; 250+ NE, hill and special areas; 100+ LWE districts (Census 2011)
Jal Jeevan Mission	Launched 15 August 2019; 55 litres per person per day; extended to December 2028 (JJM 2.0)
JJM coverage	About 17% in 2019 to about 82% of 19.36 crore rural households (2026)
Swachh Bharat Mission (G)	Launched 2 October 2014; Phase II focuses on ODF Plus
WDRA	Warehousing (Development and Regulation) Act, 2007; regulates negotiable warehouse receipts
Agriculture Infrastructure Fund	3% interest subvention up to ₹2 crore for up to 7 years; CGTMSE cover; 2020-21 to 2032-33
RIDF	Set up in NABARD in 1995-96; funded by banks' PSL shortfall deposits; lends to state governments

Quick revision

Remember	In one line
Economic vs social	Roads, power, storage, markets vs water, sanitation, housing, health, schools.
PMGSY-IV	62,500 km of roads to 25,000 habitations, FY25 to FY29.
JJM	Tap water for every rural home, 55 lpcd, extended to December 2028.
e-NWR	Electronic negotiable warehouse receipt, registered with WDRA; basis for pledge loans.
AIF	3% subvention on loans up to ₹2 crore for post-harvest infrastructure.
RIDF	NABARD fund from PSL shortfalls; loans to states for rural infrastructure.
NIDA	NABARD lending to state-owned entities for infrastructure outside the budget.
Credit lesson	Test every rural project against road, power and market access.

Practice with explanations

01. PMGSY was launched in:

A. 1995 **B.** 2000
C. 2005 **D.** 2014

Answer B. PMGSY began in December 2000 as a centrally sponsored scheme for all-weather rural roads.

02. PMGSY-IV aims to build roads of about:

A. 25,000 km **B.** 62,500 km
C. 1,25,000 km **D.** 2,00,000 km

Answer B. 62,500 km of all-weather roads for 25,000 unconnected habitations.

03. Under PMGSY-IV, the population norm for habitations in the plains is:

A. 100+ **B.** 250+
C. 500+ **D.** 1,000+

Answer C. 500+ in the plains; 250+ in NE, hill and special areas; 100+ in LWE districts.

04. The Jal Jeevan Mission targets a minimum water supply of:

A. 40 litres per person per day **B.** 55 litres per person per day
C. 70 litres per person per day **D.** 135 litres per person per day

Answer B. JJM aims at 55 lpcd through a functional household tap connection.

05. JJM has been extended up to:

A. March 2026 **B.** December 2026
C. December 2028 **D.** March 2030

Answer C. The Cabinet approved JJM 2.0 up to December 2028 in March 2026.

06. Negotiable warehouse receipts are regulated by:

A. RBI **B.** SEBI
C. WDRA **D.** NABARD

Answer C. The Warehousing Development and Regulatory Authority, under the 2007 Act.

07. Under the Agriculture Infrastructure Fund, interest subvention is:

A. 2% on loans up to ₹1 crore **B.** 3% on loans up to ₹2 crore
C. 4% on loans up to ₹3 lakh **D.** 5% on all loans

Answer B. 3% a year on loans up to ₹2 crore, for a maximum of seven years.

08. RIDF was created in NABARD in:

A. 1982 **B.** 1995-96
C. 2005-06 **D.** 2014-15

Answer B. RIDF was announced in the 1995-96 Union Budget.

09. RIDF resources come mainly from:

A. NABARD profits	**B.** Deposits of banks that fall short of priority sector targets
C. World Bank loans	**D.** State government bonds

Answer B. Banks deposit their PSL shortfall with NABARD for RIDF and similar funds.

10. RIDF loans are given to:

A. Individual farmers	**B.** State governments and state-owned bodies
C. Commercial banks	**D.** Microfinance institutions

Answer B. RIDF finances rural infrastructure through state governments.

11. Swachh Bharat Mission (Grameen) Phase II focuses on:

A. Building village roads	**B.** ODF Plus: sustaining toilet use and waste management
C. Rural electrification	**D.** Crop insurance

Answer B. Phase II consolidates ODF status and adds solid and liquid waste management.

12. PM-KUSUM supports:

A. Rural roads	**B.** Solar power for agriculture, including solar pumps
C. Rural housing	**D.** Crop insurance

Answer B. It funds decentralised solar plants, standalone solar pumps and solarisation of grid pumps.

13. Why is RIDF appraisal different from a commercial project loan?

A. RIDF has no interest	**B.** Many RIDF assets earn no user charges, so repayment is from the state budget
C. RIDF loans are unsecured grants	**D.** RIDF loans are given only to banks

Answer B. A public road or school is repaid by the state, not by revenue from the asset.

14. A pledge loan against an e-NWR mainly helps the farmer to:

A. Avoid distress sale at harvest	**B.** Get a crop insurance claim
C. Buy land	**D.** Pay school fees

Answer A. The farmer gets cash now and sells later when prices improve.

15. Which programme separated agricultural feeders from household feeders?

A. Saubhagya	**B.** DDUGJY
C. PM-KUSUM	**D.** BharatNet

Answer B. Deendayal Upadhyaya Gram Jyoti Yojana (2014) included feeder separation and rural electrification.

Sources and dates used in this chapter

- Cabinet decision on PMGSY-IV, 11 September 2024 (PIB); PMGSY programme guidelines, Ministry of Rural Development.
- Ministry of Jal Shakti: Jal Jeevan Mission progress and Cabinet approval of JJM 2.0, March 2026.
- Department of Agriculture and Farmers Welfare: Agriculture Infrastructure Fund guidelines (2020, revised 2023 and 2024).
- NABARD: Handbook on RIDF; NABARD Annual Report 2024-25.
- Warehousing (Development and Regulation) Act, 2007.

MODULE A: RURAL INDIA

A05 Agricultural Economy

376.6 MT
foodgrain output, 2025-26 (3rd advance estimate)

1.08 ha
average operational holding (2015-16)

86%
holdings that are small or marginal

55.8%
gross cropped area irrigated (2022-23)

Start with the decision. A farmer with 1.5 acres of irrigated land asks for a crop loan for paddy and then wheat, plus a term loan for a power tiller. Last year output rose by 10% but the price he received fell by 15%. Is he better off? Should the loan size follow output, price, or both? This chapter covers the structure of Indian agriculture and the measures you need to answer such questions.

Indian agriculture feeds 140 crore people and employs a large share of the rural workforce, but it runs on small and shrinking farms, depends heavily on the monsoon and sells into volatile markets. Production has grown steadily since the Green Revolution and reached record levels in recent years. Farm income, however, depends on output, price and cost together. Agricultural credit makes sense only when the banker understands all three.

1. Production and the crop calendar

India has three crop seasons. **Kharif** crops (paddy, maize, cotton, soybean, groundnut, tur, bajra) are sown with the south-west monsoon in June-July and harvested in September-November. **Rabi** crops (wheat, mustard, gram, barley) are sown in October-December and harvested in March-April. **Zaid** crops (watermelon, cucumber, moong, fodder) grow between rabi and kharif on irrigated land. The agricultural year runs from July to June.



The crop calendar decides when farm cash arrives, and so when instalments should fall due.

Foodgrain production reached a record **357.73 million tonnes in 2024-25** (final estimates). The third advance estimates for 2025-26, released in May 2026, put it at a further record of about **376.56 million tonnes**, with record rice (154.02 MT), wheat (120.66 MT) and maize (55.09 MT). Sugarcane was estimated at about 500 million tonnes. The Ministry issues several advance estimates for each crop year before the final figure.

Foodgrain production (million tonnes)



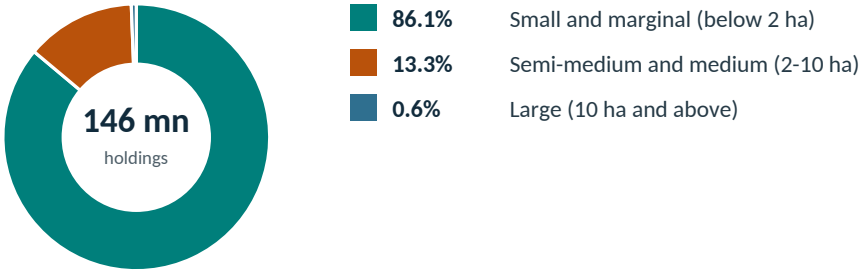
Production rose by about 106 MT in the decade to 2024-25 (Ministry of Agriculture and Farmers Welfare).

2. Landholdings: small and getting smaller

The **Agriculture Census**, conducted every five years, measures **operational holdings**: land used wholly or partly for agricultural production and operated as one technical unit by one person or with others, whatever the ownership. An operational holding is not the same as land ownership; a tenant operates land he does not own.

Size class	Area	Agriculture Census 2015-16
Marginal	Below 1 hectare	Small and marginal together: about 86% of holdings
Small	1 to 2 hectares	but only about 47% of operated area
Semi-medium	2 to 4 hectares	Semi-medium and medium: about 13% of holdings
Medium	4 to 10 hectares	and about 44% of area
Large	10 hectares and above	About 0.6% of holdings and 9% of area

Share of operational holdings by size, 2015-16



Agriculture Census 2015-16; figures rounded.

The 2015-16 census counted **146.45 million** operational holdings with an average size of **1.08 hectares**, down from 1.15 hectares in 2010-11 (and 2.28 hectares in 1970-71). Nagaland had the largest average holding (5.06 ha) and Kerala the smallest (0.18 ha). Uttar Pradesh had the most holdings. The 11th Agriculture Census (2021-22) is the first to collect data digitally. NABARD's NAFIS found average land possessed by rural households fell to 0.74 hectare in 2021-22.

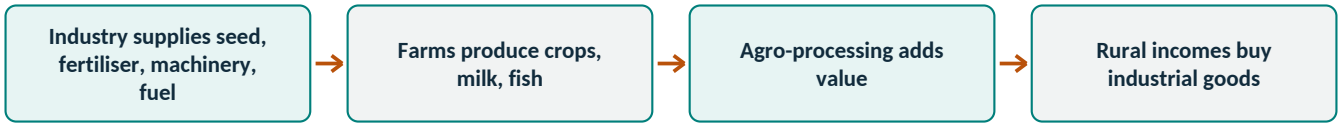
Small holdings mean small marketable surplus, little collateral and high transaction cost per loan. They also explain why group lending, FPOs and digital channels matter so much in rural banking.

3. Irrigation and inputs

About half of India's net sown area is irrigated; the rest is rainfed. The Economic Survey 2025-26 reports that gross irrigated area as a share of gross cropped area rose from 41.7% in 2001-02 to **55.8% in 2022-23**. Groundwater through tubewells is the largest source. The **Pradhan Mantri Krishi Sinchayee Yojana (PMKSY, 2015)** pursues "Har Khet Ko Pani" and "More crop per drop" through micro irrigation (drip and sprinkler).

Other key inputs are certified seed, fertiliser (urea under a controlled price; phosphatic and potassic fertilisers under the Nutrient Based Subsidy), plant protection, farm machinery and credit. The **Soil Health Card** scheme (2015) tests soil and recommends nutrient doses; over 25 crore cards have been issued.

4. Agriculture and industry: the two-way link



Agriculture is both a supplier of raw material and a large market for industry.

Agriculture supplies raw materials to textiles, sugar, edible oil, food processing and dairy, and its incomes create demand for consumer goods, two-wheelers and housing. A good monsoon lifts tractor sales and rural FMCG demand; a drought does the opposite. Agro-processing, cold chains and logistics extend the value chain and create non-farm jobs, which is why they are a lending priority.

5. Prices and price support

The Government announces **Minimum Support Prices (MSP)** for 22 mandated crops (14 kharif, 6 rabi and 2 commercial) and a Fair and Remunerative Price for sugarcane, on the recommendation of the **Commission for Agricultural Costs and Prices (CACP)**. Since 2018-19 MSPs have been fixed at least 1.5 times the all-India weighted average cost of production (the A2+FL cost). MSP is effective where procurement happens, mainly for paddy and wheat in some states; for many crops and regions market prices can fall below MSP.

Farm income support and risk cover now come through several schemes:

Scheme	What it gives	Key features
PM-KISAN (2019)	Income support	₹6,000 a year in three instalments of ₹2,000 by DBT to eligible landholding farmer families
PMFBY (2016)	Crop insurance	Farmer premium 2% for kharif, 1.5% for rabi food and oilseed crops, 5% for annual commercial and horticultural crops
Modified Interest Subvention Scheme	Cheaper short-term crop credit	Interest subvention to lenders and prompt repayment incentive to farmers (see Module B)
NMSA (2014-15)	Sustainable agriculture	One of the missions under the National Action Plan on Climate Change; soil health, rainfed area development, water use efficiency

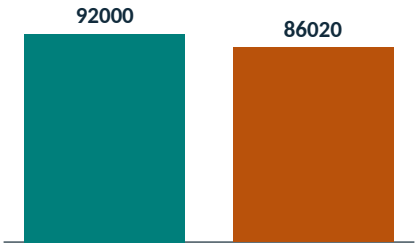
Memory trick

PMFBY farmer premium: **2 - 1.5 - 5**. Kharif 2%, rabi 1.5%, annual commercial and horticultural crops 5%.

6. Productivity, value and income

Three numbers are easily confused. **Yield** is output per hectare. **Production** is yield times area. **Gross revenue** is production times price. **Net farm income** is gross revenue minus paid-out costs (and, for a full picture, the imputed value of family labour). A rise in one does not guarantee a rise in another.

Worked case: gross revenue (₹)



More output, less revenue: price fell faster than output rose.

Worked case

Situation. Last year the farmer produced 40 quintals of paddy and sold at ₹2,300 a quintal. This year he produced 44 quintals (10% more) but sold at ₹1,955 (15% less). Paid-out costs were ₹45,000 both years.

How to work it. Revenue last year: 40 x 2,300 = ₹92,000. This year: 44 x 1,955 = ₹86,020, a fall of 6.5% (1.10 x 0.85 = 0.935). Net income fell from ₹47,000 to ₹41,020, a fall of about 12.7%, because costs did not change. Size the crop loan by the scale of finance for the crop and area, not by last year's revenue, and test the term loan for the power tiller on the lower net income. Ask whether he sold at harvest for cash; a warehouse receipt loan might have let him wait.

7. Allied activities

Livestock, dairy, poultry, fisheries and horticulture have grown faster than field crops (Chapter A03) and give more regular income. India is the world's largest milk producer. These activities suit small farmers because they need little land and produce cash weekly or monthly, which matches monthly instalments. Risks are disease, feed cost and market access, so insurance, veterinary support and a tie-up with a dairy or poultry integrator strengthen a loan.

Key facts to remember

Fact	Detail
Agricultural year	July to June
Foodgrain production	357.73 MT in 2024-25 (final); about 376.56 MT in 2025-26 (3rd advance estimates, May 2026)
Operational holdings 2015-16	146.45 million; average 1.08 ha (1.15 ha in 2010-11)

Fact	Detail
Small and marginal	About 86% of holdings, about 47% of operated area
Size classes	Marginal <1 ha; small 1-2; semi-medium 2-4; medium 4-10; large 10+ ha
Irrigation	Gross irrigated area 55.8% of gross cropped area (2022-23)
MSP	22 mandated crops plus FRP for sugarcane; recommended by CACP; at least 1.5 times A2+FL cost
PM-KISAN	₹6,000 a year in three instalments
PMFBY farmer premium	Kharif 2%; rabi 1.5%; commercial and horticultural 5%

Quick revision

Remember	In one line
Kharif / rabi	Monsoon-sown, autumn harvest / winter-sown, spring harvest.
Operational holding	Land operated as one unit, regardless of ownership.
Average holding	1.08 ha in 2015-16 and falling.
CACP	Recommends MSPs for 22 crops; MSP at least 1.5 times A2+FL.
Yield vs revenue	Yield = output per ha; revenue = output x price.
PMFBY	Farmer pays 2% kharif, 1.5% rabi, 5% commercial/horticulture.
NMSA	Sustainable agriculture mission under NAPCC.
Allied activities	Regular income, small land need, faster growth than crops.

Practice with explanations

01. Rabi crops are generally sown in:

A. June-July
B. October-December
C. March-April
D. August-September

Answer B. Rabi crops such as wheat and mustard are sown in winter and harvested in spring.

02. The average size of an operational holding as per Agriculture Census 2015-16 was:

A. 0.74 ha
B. 1.08 ha
C. 1.15 ha
D. 2.28 ha

Answer B. 1.08 ha; 1.15 ha was 2010-11 and 2.28 ha was 1970-71. 0.74 ha is NAFIS land possessed in 2021-22.

03. A small holding in the Agriculture Census is:

A. Below 1 ha
B. 1 to 2 ha
C. 2 to 4 ha
D. 4 to 10 ha

Answer B. Marginal is below 1 ha; small is 1 to 2 ha.

04. Small and marginal holdings account for about what share of all holdings?

A. 46%
B. 66%
C. 86%
D. 96%

Answer C. About 86% of holdings but only about 47% of operated area.

05. MSPs are recommended by:

A. NABARD
B. CACP
C. FCI
D. NITI Aayog

Answer B. The Commission for Agricultural Costs and Prices recommends MSPs; the Government announces them.

06. Since 2018-19, MSP has been fixed at least at:

A. Equal to A2 cost
B. 1.25 times C2 cost
C. 1.5 times A2+FL cost
D. 2 times A2 cost

Answer C. MSPs are set at a minimum of 1.5 times the all-India weighted average A2+FL cost of production.

07. PM-KISAN provides eligible farmer families:

A. ₹2,000 a year	**B.** ₹6,000 a year in three instalments
C. ₹10,000 a year	**D.** ₹12,000 a year

Answer B. ₹6,000 a year in three equal instalments of ₹2,000 by direct benefit transfer.

08. Under PMFBY, the maximum premium payable by a farmer for kharif crops is:

A. 1.5%	**B.** 2%
C. 5%	**D.** 10%

Answer B. 2% for kharif, 1.5% for rabi food and oilseed crops, 5% for annual commercial and horticultural crops.

09. India's foodgrain production in 2024-25 (final estimates) was about:

A. 275 MT	**B.** 315 MT
C. 358 MT	**D.** 400 MT

Answer C. 357.73 million tonnes, a record at the time.

10. Output rises 10% and price falls 15%, other things unchanged. Gross revenue:

A. Rises 5%	**B.** Falls 5%
C. Falls 6.5%	**D.** Falls 15%

Answer C. 1.10 x 0.85 = 0.935, a fall of 6.5%.

11. An operational holding differs from ownership because:

A. It excludes irrigated land	**B.** It is the land operated as a unit, whether owned, leased or otherwise
C. It includes only land above 1 ha	**D.** It is measured in acres

Answer B. A tenant's leased land is part of his operational holding though he does not own it.

12. NMSA was launched as part of:

A. Green Revolution	**B.** National Action Plan on Climate Change
C. Swachh Bharat Mission	**D.** Digital India

Answer B. The National Mission for Sustainable Agriculture is one of the NAPCC missions.

13. Gross irrigated area as a share of gross cropped area in 2022-23 was about:

A. 35%	**B.** 45%
C. 56%	**D.** 75%

Answer C. 55.8% as per the Economic Survey 2025-26.

14. The agricultural year in India runs from:

A. January to December	**B.** April to March
C. July to June	**D.** October to September

Answer C. The agricultural year is July to June, matching the kharif-rabi cycle.

15. Why do allied activities suit monthly instalment loans?

A. They need more land	**B.** They generate regular weekly or monthly cash
C. They have no risk	**D.** They are exempt from insurance

Answer B. Milk, eggs and fish produce frequent cash flows, unlike seasonal crops.

Sources and dates used in this chapter

- Ministry of Agriculture and Farmers Welfare: Final estimates of crop production 2024-25 (November 2025); Third advance estimates 2025-26 (May 2026).
- Agriculture Census 2015-16 (final results) and Lok Sabha answers on holdings.
- Economic Survey 2025-26, chapter on agriculture.
- CACP price policy reports; PM-KISAN and PMFBY operational guidelines.
- NABARD, NAFIS 2021-22.

MODULE A: RURAL INDIA

A06 Rural Development Policies

125 days
wage work guaranteed under VB-G RAM G

1 Jul 2026
VB-G RAM G in force

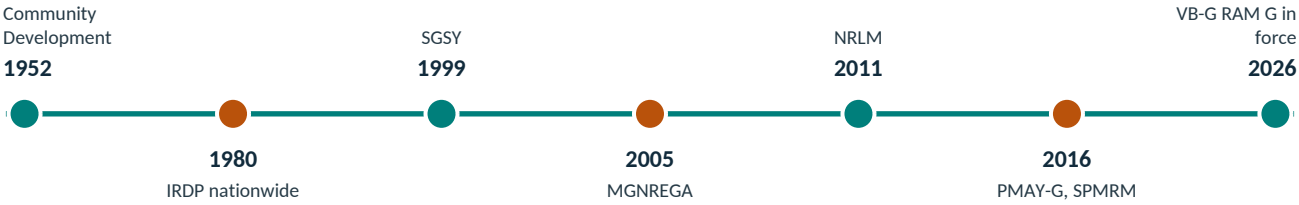
2011
NRLM (Aajeevika) launched

300
Rurban clusters under SPMRM

Start with the decision. The block office sends you 40 applications under a self-employment scheme, a list of SHGs to be linked, and a reminder that the new rural employment law took effect on 1 July 2026. Which programme does what, and where does the bank fit in each? This chapter traces how India's rural development policy evolved and how the current programmes work.

Rural development policy in India has moved through four broad approaches: community development in the 1950s, area and target-group programmes in the 1970s and 1980s, self-employment and wage employment programmes from the 1980s, and, since the 2000s, rights-based guarantees and mission-mode programmes built on community institutions and direct benefit transfer. Banks have been partners throughout, as lenders, as payment channels and as trainers.

1. How policy evolved



Milestones in rural development policy.

Period	Programme	Idea
1952	Community Development Programme (2 October 1952)	All-round village development through blocks and extension workers.
1960s	Intensive Agricultural District Programme; Green Revolution	Raise output with HYV seed, fertiliser, irrigation and credit.
1970s	Small Farmers Development Agency; Drought Prone Areas Programme	Target specific groups and areas left out of growth.
1978-80	Integrated Rural Development Programme (IRDP)	Subsidy-linked bank loans for assets to poor families; nationwide from 2 October 1980.
1979-82	TRYSEM; DWCRA	Training rural youth; groups of rural women.
1989	Jawahar Rozgar Yojana	Wage employment through panchayats.
1999	Swarnjayanti Gram Swarozgar Yojana (SGSY)	Merged IRDP and allied schemes; SHG-based self-employment.
2005-06	MGNREGA	Legal right to 100 days of wage work for every rural household.
2011	National Rural Livelihoods Mission (Aajeevika); DAY-NRLM from 2016	Universal SHG mobilisation, federations and bank linkage.
2016	PMAY-G; SPMRM	Pucca housing for all; Rurban clusters.
2025-26	VB-G RAM G Act, 2025 (in force 1 July 2026)	Replaces MGNREGA; 125 days of guaranteed wage work.

The lesson of IRDP is important for bankers. Loans were often target-driven, assets were not matched to the borrower's skills or markets, and subsidy encouraged borrowing for its own sake. Recovery was poor. Later programmes moved to group-based, demand-led credit with training and market linkage.

2. Wage employment: from MGNREGA to VB-G RAM G

The **Mahatma Gandhi National Rural Employment Guarantee Act, 2005** gave every rural household whose adult members volunteered for unskilled manual work a legal right to 100 days of wage employment a year. Wages were paid into bank or post office accounts, which made MGNREGA one of the largest drivers of rural account opening.

The **Viksit Bharat - Guarantee for Rozgar and Ajeevika Mission (Gramin) Act, 2025 (VB-G RAM G)** replaces MGNREGA. Parliament passed it in December 2025 and it received Presidential assent on 21 December 2025. The Government notified on 11 May 2026 that it would apply nationwide from **1 July 2026**. It raises the statutory guarantee from 100 to **125 days of wage employment** per rural household in each financial year and links works to durable rural infrastructure, Gram Panchayat-led planning and climate resilience. e-KYC-verified MGNREGA job cards remain valid until new Gramin Rozgar Guarantee Cards are issued.

MGNREGA (2005)	VB-G RAM G Act (2025)
• Statutory right to 100 days of wage work	• Statutory guarantee of 125 days of wage work
• Demand-driven; wages paid to bank or post office accounts	• Links works to durable rural infrastructure and GP-led planning
• Replaced from 1 July 2026	• Verified MGNREGA job cards valid until new cards are issued

> **Check before use.** Funding pattern, wage rates and the list of permissible works under VB-G RAM G are set by the Act, its rules and the scheme framework. Check the current Ministry of Rural Development notifications before advising beneficiaries.

3. Self-employment and livelihoods: DAY-NRLM

The **Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM)** began in June 2011 as Aajeevika. It mobilises one woman from each poor rural household into an SHG, federates SHGs into village organisations and cluster-level federations, and links them to banks for credit. It provides a revolving fund and community investment fund to groups, interest subvention on SHG loans, and support for farm and non-farm livelihoods.



The DAY-NRLM institutional structure. SHG-bank linkage is covered in Module D.

The government has set a goal of creating "Lakhpati Didis", SHG women earning at least ₹1 lakh a year from livelihood activities. For banks, DAY-NRLM SHGs are among the best-performing rural borrowers because they come with savings history, bookkeeping, federation support and peer pressure.

At the branch

DAY-NRLM SHGs come with a savings record, books of account and a federation that follows up. Ask for the SHG's grading and the village organisation's recommendation before sanction.

4. Skills: DDU-GKY and RSETIs

Deendayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY), launched in 2014, funds placement-linked skill training for poor rural youth (generally aged 15 to 35) through training partners, with a requirement that a large share of trainees be placed in jobs. **RSETIs**, run by banks in every district, train for self-employment and help trainees obtain bank credit. The test of any skill programme is not the number trained but the number in sustained work or business.



Measure outcomes, not just outputs.

5. Housing and the Rurban approach

Pradhan Mantri Awaas Yojana - Gramin (PMAY-G), launched on 1 April 2016 (restructured from the Indira Awaas Yojana of 1985-86), gives financial assistance to houseless households and those living in kutcha or dilapidated houses, identified from the Socio Economic and Caste Census 2011 and Awaas+ surveys and verified by the Gram Sabha. Assistance is paid in instalments linked to construction stages, with convergence with toilet, water, gas and electricity schemes. Banks may lend a top-up loan; Chapter C03 covers this.

The **Shyama Prasad Mukherji Rurban Mission (SPMRM)**, launched in February 2016, developed 300 clusters of villages with urban-type amenities and economic activities, so that growth centres emerge in rural areas instead of everyone moving to cities. Treat it as an example of the cluster approach.

6. Dryland and watershed development

Rainfed and dryland areas cover a large part of the sown area and hold many of the poorest farmers. The **watershed approach** treats an entire drainage area: contour bunding, check dams, farm ponds, afforestation and soil conservation, so that rainfall is retained and recharges groundwater. The Watershed Development Component of PMKSY and NABARD's Watershed Development Fund support such projects with community participation.

For banks, watershed areas offer follow-on lending: once moisture and water availability improve, farmers can take crop loans, dairy, horticulture and micro-irrigation loans that would not have been viable before.

Exam tip

Order of self-employment programmes: **IRDP (1978-80) to SGSY (1999) to NRLM (2011) to DAY-NRLM (2016)**. Wage employment: **JRY (1989) to MGNREGA (2005) to VB-G RAM G (2025 Act, from 2026)**.

7. Economic and financial sector reforms and the rural economy

The 1991 reforms liberalised trade and industry; the **Narasimham Committee (1991)** led financial sector reforms: lower statutory pre-emptions, interest rate deregulation, prudential norms and greater competition. Rural credit growth slowed in the 1990s as banks became profit-conscious, and branch expansion in rural areas lagged. Policy then corrected course: the **RIDF** (1995-96), the **Kisan Credit Card** (1998), the SHG-bank linkage programme, the **doubling of agricultural credit** plan (2004), the amalgamation and recapitalisation of RRBs, financial inclusion plans and the **PMJDY** (2014).

The result is a rural banking system that is more commercially disciplined than before 1991 but still carries strong policy mandates through priority sector targets, government-sponsored schemes and interest subvention.

Worked case

Situation. The block sends 40 self-employment applications. Each carries a recommendation and a subsidy component. Several applicants want dairy units; the village has no milk collection centre.

How to work it. Do not treat the recommendation as approval. For dairy, check the nearest collection point, the dairy cooperative's willingness to buy, fodder availability and veterinary cover. Prefer applicants who are members of a DAY-NRLM SHG with a savings record, or who have completed RSETI training. Where the market link is missing, defer the dairy cases and suggest activities with an assured buyer. Record reasons for every decision.

Key facts to remember

Fact	Detail
Community Development Programme	2 October 1952
IRDP	1978-79; nationwide from 2 October 1980
SGSY	1 April 1999; replaced IRDP and allied programmes
MGNREGA	2005; 100 days of wage employment

Fact	Detail
VB-G RAM G Act, 2025	Assent 21 December 2025; in force 1 July 2026; 125 days; replaces MGNREGA
DAY-NRLM	Launched June 2011 as Aajeevika; renamed 2016
DDU-GKY	2014; placement-linked skills for rural youth
PMAY-G	1 April 2016; successor to Indira Awaas Yojana
SPMRM	February 2016; 300 Rurban clusters
Narasimham Committee	1991; financial sector reforms

Quick revision

Remember	In one line
First approach	Community Development Programme, 1952.
IRDP lesson	Target-driven subsidised loans without market links failed.
SGSY	1999 SHG-based self-employment programme, later replaced by NRLM.
VB-G RAM G	125 days of wage work; replaced MGNREGA from 1 July 2026.
DAY-NRLM	SHG mobilisation, federations and bank linkage.
DDU-GKY	Placement-linked skill training for rural youth.
Watershed approach	Treat the whole drainage area to retain water and soil.
Cluster approach	SPMRM: develop groups of villages as growth centres.

Practice with explanations

01. The Community Development Programme was launched on:

A. 15 August 1947 **B.** 2 October 1952
C. 26 January 1950 **D.** 2 October 1980

Answer B. It began on Gandhi Jayanti 1952 through community development blocks.

02. IRDP was extended to all blocks of the country from:

A. 1975 **B.** 2 October 1980
C. 1 April 1999 **D.** 2005

Answer B. It started in 1978-79 in selected blocks and became nationwide on 2 October 1980.

03. SGSY, launched in 1999, was replaced by:

A. MGNREGA **B.** National Rural Livelihoods Mission
C. PMAY-G **D.** DDU-GKY

Answer B. NRLM (Aajeevika) restructured SGSY in 2011.

04. Under the VB-G RAM G Act, 2025, each rural household is guaranteed wage employment of:

A. 100 days **B.** 120 days
C. 125 days **D.** 150 days

Answer C. The Act raised the guarantee from 100 days under MGNREGA to 125 days a year.

05. VB-G RAM G took effect nationwide from:

A. 21 December 2025 **B.** 1 April 2026
C. 1 July 2026 **D.** 1 October 2026

Answer C. The Government notified on 11 May 2026 that it would apply from 1 July 2026.

06. DAY-NRLM mobilises poor rural households mainly through:

A. Individual loans **B.** Women's self-help groups and their federations
C. Cooperative banks **D.** Producer companies only

Answer B. One woman from each poor household joins an SHG; SHGs form village and cluster federations.

07. DDU-GKY is primarily a:

A. Housing scheme	**B.** Placement-linked skill training scheme
C. Crop insurance scheme	**D.** Road scheme

Answer B. It trains poor rural youth and requires job placement.

08. PMAY-G was launched on:

A. 1 April 2015	**B.** 1 April 2016
C. 2 October 2014	**D.** 25 June 2015

Answer B. PMAY-G replaced the Indira Awaas Yojana from 1 April 2016.

09. The Shyama Prasad Mukherji Rurban Mission targeted development of:

A. 100 smart cities	**B.** 300 rural clusters
C. 5,000 villages	**D.** All gram panchayats

Answer B. SPMRM aimed at 300 Rurban clusters.

10. The watershed approach focuses on:

A. Urban drainage	**B.** Treating an entire drainage area to conserve soil and water
C. Building large dams only	**D.** Groundwater extraction

Answer B. Bunding, check dams, ponds and plantation across the catchment retain rainfall.

11. The Narasimham Committee of 1991 is associated with:

A. Panchayati Raj	**B.** Financial sector reforms
C. Crop insurance	**D.** Land reforms

Answer B. It recommended reforms in banking: deregulation, prudential norms and competition.

12. A major weakness of IRDP was:

A. Lack of subsidy	**B.** Target-driven lending without matching skills and markets
C. Too much training	**D.** Excessive collateral

Answer B. Assets were often unsuited to borrowers and markets, leading to poor recovery.

13. Which is the best outcome measure for a skill programme?

A. Number of trainees enrolled	**B.** Number of certificates issued
C. Number in sustained work or business after training	**D.** Training hours delivered

Answer C. Livelihood outcomes, not activity counts, show whether the programme worked.

14. Under VB-G RAM G, existing e-KYC verified MGNREGA job cards:

A. Became invalid on 1 July 2026	**B.** Remain valid until new Gramin Rozgar Guarantee Cards are issued
C. Must be surrendered to banks	**D.** Are converted into ration cards

Answer B. The transition provision keeps verified job cards valid until new cards are issued.

15. Banks contribute to self-employment training mainly through:

A. NIRDPR	**B.** RSETIs
C. Gram Sabhas	**D.** Krishi Vigyan Kendras

Answer B. Rural Self Employment Training Institutes are run by banks in each district.

Sources and dates used in this chapter

- Ministry of Rural Development: VB-G RAM G Act, 2025 (PIB, 22 December 2025) and notification of commencement (11 May 2026).
- DAY-NRLM, DDU-GKY, PMAY-G and SPMRM programme guidelines, Ministry of Rural Development.
- Report of the Committee on the Financial System (Narasimham Committee), 1991.
- Planning Commission five-year plan documents on rural development programmes.

MODULE A: RURAL INDIA

A07 Issues in Rural Development

14 Apr 2016
e-NAM launched

10,000
FPOs targeted under the 2020 scheme

2017
Model APLM Act circulated

4 prices
MSP, farmgate, mandi, retail

Start with the decision. Tomato prices in your district crashed from ₹30 to ₹4 a kilo within three weeks. Farmers who took crop loans are dumping produce on the roadside, while the same tomatoes sell at ₹40 in the city. Some borrowers ask for restructuring; others ask why the bank financed tomatoes at all. Understanding rural markets, prices and development approaches helps you answer both questions.

Despite decades of programmes, rural development faces persistent issues: fragmented markets and weak price realisation, poor coordination between schemes, pressure on natural resources, migration, and programmes that measure spending rather than results. This chapter looks at the main issues, the reforms attempted, and what they mean for a rural lender.

1. Approaches to rural development

Approach	Main idea	Strength	Weakness
Sectoral	Develop one sector at a time (agriculture, roads, health)	Clear responsibility	Poor coordination across sectors
Area development	Focus on backward or fragile areas (drought-prone, hill, tribal)	Addresses regional imbalance	May miss the poorest within an area
Target group	Focus on specific households (small farmers, landless, women)	Reaches the poor directly	Identification errors; dependency on subsidy
Integrated	Combine credit, inputs, training, infrastructure and markets	Addresses several constraints together	Complex to coordinate
Participatory	Communities plan and monitor (Gram Sabha, SHGs, watershed committees)	Ownership, local knowledge, accountability	Elite capture if not designed carefully

Current policy mixes these: mission-mode schemes for specific goals, convergence at Gram Panchayat level through the GPDP, community institutions for delivery and direct benefit transfer to reduce leakage.

2. Sustainable development and planning

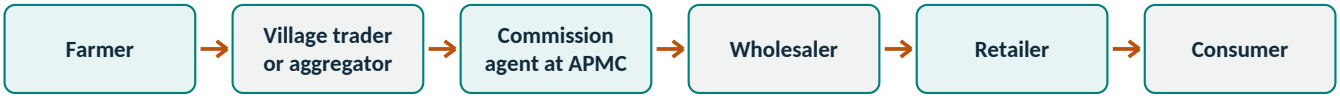
Sustainable development meets present needs without compromising the ability of future generations to meet theirs. In rural India the main pressures are falling groundwater tables in intensively irrigated areas, soil degradation from imbalanced fertiliser use, deforestation, and climate change bringing more erratic rainfall, heat waves and floods.

- **Groundwater:** free or cheap power for pumps encourages over-extraction; micro-irrigation and crop diversification reduce demand.
- **Soil:** soil health cards, balanced nutrients and organic matter restore productivity.
- **Climate:** drought-tolerant varieties, insurance, weather advisories and diversified income build resilience.
- **Planning:** district and block plans should be based on the resource potential (NABARD's Potential Linked Credit Plans) and not on targets alone.

For lenders, sustainability is also credit risk. A borewell loan in an over-exploited block may fail when the well dries up; a solar pump with drip irrigation is more likely to be repaid over its life.

3. Rural marketing

Agricultural marketing in most states has been regulated under state **Agricultural Produce Market Committee (APMC) Acts**, which require sale of notified produce in regulated market yards through licensed commission agents. The system reduced some exploitation but also created barriers: few markets per area, high fees and commissions, limited competition among traders and long chains of intermediaries.



A long chain means the farmer's share of the consumer price can be small, especially for perishables.

Did you know?

For perishables like tomato and onion, the farmer's share of the retail price can be well under half, because of wastage, transport and several layers of trade. FPOs and direct sale raise it.

Reforms to shorten the chain and widen buyers include:

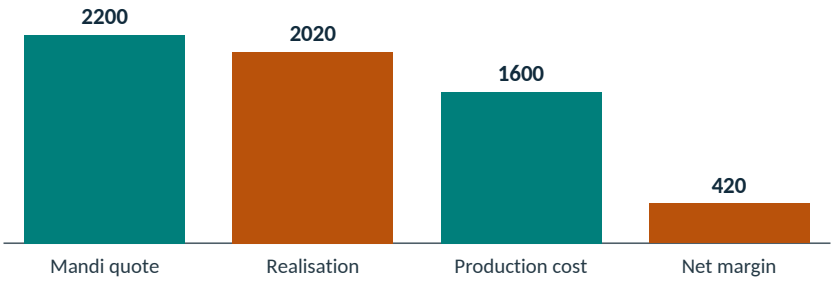
Reform	What it does
e-NAM (14 April 2016)	Electronic National Agriculture Market linking APMC mandis on one online platform for transparent price discovery and wider buyers.
Model APLM Act, 2017	Model law for states: private markets, direct purchase from farmers, e-trading, single licence and lower fees.
Warehouse-based sale	e-NWRs let farmers sell from registered warehouses and borrow against stored produce (Chapter A04).
FPOs (10,000 FPO scheme, 2020)	Producer organisations aggregate produce, negotiate prices and buy inputs in bulk.
Gramin Agricultural Markets (GrAMs)	Upgrading rural haats into retail markets close to farms.
Contract farming	Pre-agreed price and quantity with a buyer; state laws govern the terms.

4. Agricultural prices

Farm prices are volatile because supply is seasonal and depends on weather, demand is relatively stable, and perishables cannot be stored without cold chains. The result is the "cobweb" cycle: high prices this season encourage everyone to plant the same crop next season, causing a glut and a price crash.

Distinguish four prices: the **MSP** (announced support price), the **farmgate price** (what the farmer actually receives), the **wholesale mandi price**, and the **retail price** paid by consumers. Differences come from quality deductions, transport, storage, commission, wastage and timing. For rural workers' cost of living, the Labour Bureau publishes the **Consumer Price Index for Agricultural Labourers (CPI-AL)** and for Rural Labourers (CPI-RL).

Wheat: from quotation to margin (₹ per quintal)



Appraise on realisation, not on the quotation.

Worked case

Situation. The mandi quotes ₹2,200 a quintal for wheat. The farmer pays ₹60 for transport, ₹45 for commission and fees, ₹40 for loading and cleaning, and suffers a quality deduction of ₹35. Production cost is ₹1,600 a quintal.

How to work it. Marketing costs and deductions total ₹180, so realisation is ₹2,020 a quintal. Net margin over production cost is ₹420, not ₹600. A loan appraisal that used the mandi quotation would overstate surplus by 43%. Always appraise on likely realisation after marketing costs, and on a conservative price, not the season's peak.

5. Other persistent issues

- **Fragmentation and tenancy:** small plots and unrecorded tenancy keep many cultivators out of formal credit. Land record digitisation and SVAMITVA property cards help.
- **Indebtedness:** borrowing to repay earlier loans, often informal ones, hides structural shortfalls (Chapter A03).
- **Migration and feminisation of agriculture:** as men migrate, women manage farms without land titles, which affects credit access.
- **Scheme overlap and leakage:** many schemes with different eligibility; DBT and Aadhaar seeding reduce leakage but create exclusion when records do not match.
- **Capacity of local bodies:** panchayats often lack staff and funds to plan and execute.



Exam tip

Know the four prices: **MSP** (announced), **farmgate** (received), **mandi** (wholesale), **retail** (consumer). CPI-AL and CPI-RL are compiled by the **Labour Bureau**.

6. Monitoring results

Good programmes set a **baseline**, define **outputs** (what is delivered) and **outcomes** (what changes for people), track them by group (women, SC/ST, small farmers) and give users a way to report problems. Social audits by the Gram Sabha are a legal requirement in rural employment programmes. Banks apply the same discipline to their own lending: account opening is an output; active use, repayment and higher income are outcomes.

Output (what is delivered)	Outcome (what changes)
• Accounts opened	• Accounts used regularly
• People trained	• Trainees in work after a year
• Roads built	• Villages reachable all year
• Loans disbursed	• Loans repaid and incomes higher

Key facts to remember

Fact	Detail
e-NAM launched	14 April 2016
Model APLM Act	2017 (Agricultural Produce and Livestock Marketing)
FPO scheme	Formation and promotion of 10,000 FPOs, launched 2020
CPI-AL and CPI-RL	Published by the Labour Bureau
Potential Linked Credit Plan	Prepared by NABARD for each district
Cobweb cycle	High price leads to over-planting, glut and price crash the next season

Quick revision

Remember	In one line
Participatory approach	Communities plan and monitor; risk of elite capture.
APMC	State law regulating sale of notified produce in market yards.
e-NAM	Online platform linking mandis, launched 14 April 2016.
Farmgate price	What the farmer actually receives after deductions.
Cobweb cycle	Price swings caused by planting decisions based on last season's price.
Output vs outcome	What is delivered vs what changes for people.
Appraisal rule	Use realisation after marketing costs, at a conservative price.

Practice with explanations

01. e-NAM was launched on:

A. 2 October 2014 **B.** 14 April 2016
C. 1 April 2017 **D.** 15 August 2019

Answer B. The Electronic National Agriculture Market was launched on 14 April 2016.

02. Which approach is most exposed to "elite capture"?

A. Sectoral **B.** Participatory
C. Area development **D.** Centralised planning

Answer B. When communities plan, influential members may dominate unless the design ensures inclusion.

03. The Model APLM Act was circulated in:

A. 2007 **B.** 2012
C. 2017 **D.** 2020

Answer C. The Model Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017.

04. A mandi quotes ₹2,200 per quintal and marketing costs plus deductions are ₹180. The realisation is:

A. ₹2,020 **B.** ₹2,200
C. ₹2,380 **D.** ₹1,840

Answer A. 2,200 - 180 = ₹2,020 per quintal.

05. CPI for Agricultural Labourers is compiled by:

A. NSO **B.** RBI
C. Labour Bureau **D.** CACP

Answer C. The Labour Bureau publishes CPI-AL and CPI-RL.

06. The cobweb cycle explains:

A. Rising land prices **B.** Price swings due to planting based on last season's price
C. Interest rate cycles **D.** Monsoon patterns

Answer B. High prices lead to more planting, a glut and lower prices the next season.

07. Which of these best measures the outcome of a financial inclusion drive?

A. Accounts opened **B.** Cards issued
C. Active use of accounts and credit repaid **D.** Camps held

Answer C. Outcomes are changes in behaviour or welfare, not activity counts.

08. Potential Linked Credit Plans are prepared by:

A. RBI **B.** NABARD
C. District Collector **D.** Lead bank head office

Answer B. NABARD prepares PLPs for each district as the basis for the district credit plan.

09. Under the APMC system, the main criticism has been:

A. No regulation at all	**B.** Restricted competition and high intermediation costs
C. Too many private markets	**D.** Lack of MSP

Answer B. Licensing and few markets limited competition and added layers of commission.

10. A borewell loan in an over-exploited groundwater block mainly carries:

A. Market risk	**B.** Sustainability risk that the source may fail
C. Interest rate risk	**D.** Currency risk

Answer B. Falling water tables can make the well unproductive before the loan is repaid.

11. Contract farming means:

A. Leasing land to a bank	**B.** A pre-agreement between farmer and buyer on price and quantity
C. Farming on government land	**D.** Crop insurance

Answer B. Terms are fixed before planting, reducing price uncertainty for the farmer.

12. Social audits in rural employment programmes are conducted by:

A. The bank	**B.** The Gram Sabha
C. The State Election Commission	**D.** NABARD

Answer B. The Gram Sabha audits works and payments in the village.

13. Which reform lets farmers borrow against stored produce instead of selling at harvest?

A. e-NWR-based pledge finance	**B.** PM-KISAN
C. MGNREGA	**D.** Soil Health Card

Answer A. Electronic negotiable warehouse receipts support pledge loans.

14. The farmer's share of the consumer price is usually lowest for:

A. Non-perishable grains sold at MSP	**B.** Perishables sold through long chains
C. Produce sold through FPOs	**D.** Contract-farmed produce

Answer B. Perishables pass through many hands and suffer wastage, cutting the farmer's share.

15. Feminisation of agriculture is mainly linked to:

A. Mechanisation	**B.** Male out-migration
C. Higher MSP	**D.** Land consolidation

Answer B. When men migrate, women take on more farm work, often without land titles.

Sources and dates used in this chapter

- Ministry of Agriculture and Farmers Welfare: e-NAM; Model APLM Act, 2017; Central Sector Scheme for Formation and Promotion of 10,000 FPOs (2020).
- Labour Bureau, Ministry of Labour and Employment: CPI-AL and CPI-RL.
- NABARD: Potential Linked Credit Plans.

MODULE B: FINANCING RURAL DEVELOPMENT

B01 Regulation of Rural Financial Services



12 Jul 1982
NABARD established

1969
Lead Bank Scheme introduced

28
RRBs after 1 May 2025

3 tiers
SLBC, DCC and BLBC forums

Start with the decision. Your branch is the lead bank's branch in a block. The Block Level Bankers' Committee meets next week, the district's Annual Credit Plan shows your dairy target 40% behind, and a cooperative society asks why it is inspected by NABARD and not by RBI. To act sensibly you need to know who regulates whom in rural finance and how credit is planned from village to state.

Rural financial services are delivered by commercial banks, regional rural banks, cooperative banks, small finance banks, NBFCs and microfinance institutions. Each has a legal basis, a regulator and often a separate supervisor. Credit is planned through the Lead Bank Scheme and NABARD's potential-linked plans. This chapter maps the institutions, the regulators and the planning chain.

1. The regulatory map

Institution	Law	Regulator	Supervisor / inspection
Scheduled commercial banks	Banking Regulation Act, 1949; RBI Act, 1934	RBI	RBI
Regional rural banks	Regional Rural Banks Act, 1976 and BR Act	RBI	NABARD (on behalf of RBI)
State and district central cooperative banks	State Cooperative Societies Acts; BR Act (as applicable to cooperative societies)	RBI (banking functions); Registrar of Cooperative Societies (management)	NABARD
Urban cooperative banks	Cooperative Societies Acts; BR Act	RBI	RBI
PACS	State Cooperative Societies Acts	Registrar of Cooperative Societies	Not banks; supervised through the cooperative structure
NBFC-MFIs and other NBFCs	RBI Act, 1934	RBI	RBI
Small finance banks	BR Act; licensed by RBI	RBI	RBI

Cooperative banks have long faced **dual control**: RBI regulates banking functions, while the state Registrar of Cooperative Societies controls registration, management, elections and audit. The **Banking Regulation (Amendment) Act, 2020** strengthened RBI's powers over cooperative banks in matters of management, capital, audit and resolution. Primary agricultural credit societies remain outside the BR Act because they do not accept public deposits as banks.



Exam tip

RBI **regulates** RRBs and rural cooperative banks, but **NABARD inspects** them. Questions often ask who "supervises" or "inspects" RRBs: the answer is NABARD.

2. RBI's role in rural finance

- **Priority sector lending** directions: targets and sub-targets for agriculture, small and marginal farmers, weaker sections and micro enterprises (Module C).
- **Credit delivery** instructions: Kisan Credit Card, collateral-free limits, relief measures for natural calamities, Lead Bank Scheme.

- **Financial inclusion**: branch authorisation, business correspondent model, basic savings bank deposit accounts.
- **Financial Inclusion and Development Department (FIDD)** of RBI handles these policies; Lead District Officers of RBI oversee the Lead Bank Scheme in districts.
- **Customer protection**: fair practices, grievance redress and the RBI Integrated Ombudsman Scheme.

3. NABARD: apex development bank for agriculture and rural development

NABARD was set up on **12 July 1982** under the NABARD Act, 1981, on the recommendation of the **CRAFICARD** committee (Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development) appointed by RBI under **B. Sivaraman**. It took over the agricultural credit functions of RBI and the refinance functions of the Agricultural Refinance and Development Corporation. Its share capital is now held fully by the Government of India.

Function	What NABARD does
Refinance	Short-term refinance for seasonal agricultural operations; long-term refinance for investment credit by banks, RRBs and cooperatives.
Direct and infrastructure finance	RIDF loans to states, NIDA, Long Term Irrigation Fund, Warehouse Infrastructure Fund and other funds (Chapter A04).
Supervision	Statutory inspection of RRBs, StCBs and DCCBs; voluntary inspection of apex cooperative bodies.
Development and promotion	SHG-bank linkage, FPO promotion, watershed and tribal development, financial literacy, rural innovation funds.
Credit planning	Potential Linked Credit Plans (PLPs) for every district; State Focus Papers.

Refinance is funding to an eligible lender against loans it has already made for an eligible purpose. The bank still bears the credit risk and remains responsible for appraisal, documentation, disbursement and follow-up. Refinance lowers the bank's cost of funds; it does not shift the borrower's risk to NABARD.

4. The Lead Bank Scheme

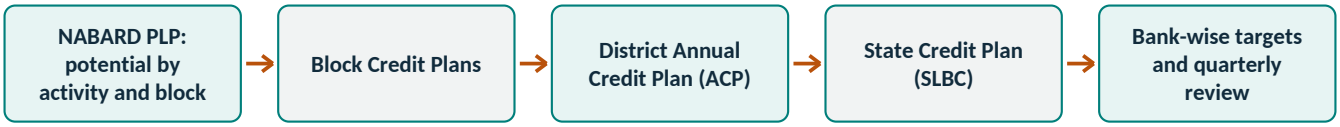
The **Lead Bank Scheme** was introduced by RBI in **1969**, following the Gadgil Study Group and the Nariman Committee, to give every district a bank responsible for coordinating banking development. The lead bank does not lend alone; it convenes all banks, the government departments and NABARD to plan and review credit. The scheme was reviewed by a high-level committee chaired by Usha Thorat (2009) and revised by RBI in 2018 to make forums more effective.



Coordination forums under the Lead Bank Scheme, from state to block.

The **Lead District Manager (LDM)**, an officer of the lead bank, runs the district forums. The **Lead District Officer** of RBI monitors the scheme. Forums review the Annual Credit Plan, priority sector performance, government-sponsored schemes, financial inclusion, recovery and problems such as land records or pending subsidy claims. The **service area approach** (1989), which allotted villages to specific branches, was withdrawn for most purposes in 2004; borrowers may now approach any bank.

5. The credit planning chain



Planning starts from the physical potential of each activity, not from last year's targets.

NABARD's **Potential Linked Credit Plan** estimates, for each activity and block, how much credit can be absorbed given land, water, livestock, markets and infrastructure. Banks use it to prepare the **Annual Credit Plan**. When actual credit falls short, the forum should ask why: lack of demand, missing infrastructure (milk routes, cold chains), documentation problems, risk appetite,

or weak delivery channels.

Potential (PLP)	Plan and achievement (ACP)
• What the district can absorb	• What banks commit to lend
• Prepared by NABARD	• Prepared by banks through the LDM
• Based on physical and market factors	• Reviewed quarterly in DCC and BLBC
• Guides priorities	• Shows gaps to investigate

6. Other regulators and frameworks that touch rural finance

- **Microfinance:** RBI's Master Direction on microfinance loans (2022) applies to all regulated lenders. A microfinance loan is a collateral-free loan to a household with annual income up to ₹3 lakh; repayment obligations of the household on all such loans are capped at 50% of monthly household income.
- **Insurance** (crop, livestock, life and health) is regulated by IRDAI; **pensions** (Atal Pension Yojana) by PFRDA.
- **Cooperatives:** the Ministry of Cooperation (created in 2021) drives PACS reforms, model bye-laws and PACS computerisation.
- **Credit information:** lenders report to credit information companies, which helps rural borrowers build a credit history.

Worked case

Situation. At the BLBC, dairy credit is 40% behind the Annual Credit Plan. The plan was based on the PLP figure for crossbred cattle units.

How to work it. Do not just reallocate the shortfall among branches. Ask the dairy cooperative and animal husbandry department for the facts: is there a milk collection route and chilling centre in each block? Are veterinary services and insurance available? If collection is the constraint, record it in the BLBC minutes for the DCC and state department, and focus lending on villages already on milk routes. Planning forums exist to fix such gaps, not only to count achievement.



Memory trick

Lead Bank forums from top to bottom: **S - D - B**: State (SLBC), District (DCC), Block (BLBC).

Key facts to remember

Fact	Detail
NABARD	Established 12 July 1982 under the NABARD Act, 1981; CRAFICARD (B. Sivaraman)
NABARD ownership	Fully owned by Government of India
RRB supervision	NABARD inspects RRBs, StCBs and DCCBs
Lead Bank Scheme	1969; Gadgil Study Group and Nariman Committee
Lead Bank forums	SLBC (state), DCC and DLRC (district), BLBC (block)
Service area approach	Introduced 1989; largely withdrawn 2004
Cooperative banks	BR (Amendment) Act, 2020 strengthened RBI powers
Microfinance loan	Household income up to ₹3 lakh a year; repayment cap 50% of monthly income (RBI, 2022)
Ministry of Cooperation	Created 2021

Quick revision

Remember	In one line
Regulate vs supervise	RBI regulates RRBs and rural cooperatives; NABARD inspects them.
NABARD	12 July 1982; refinance, supervision, development, PLPs.
Refinance	Funds to the lender; credit risk stays with the lender.
Lead Bank Scheme	1969; LDM runs district forums; RBI LDO monitors.
PLP	NABARD's district plan of credit potential by activity.
ACP	Banks' Annual Credit Plan, reviewed in DCC and BLBC.
Dual control	RBI for banking, Registrar for management of cooperative banks.
Microfinance loan	Collateral-free; household income up to ₹3 lakh.

Practice with explanations

01. NABARD was established on:

A. 1 April 1935	**B.** 12 July 1982
C. 2 October 1975	**D.** 1 April 1990

Answer B. NABARD came into existence on 12 July 1982 under the NABARD Act, 1981.

02. NABARD was set up on the recommendation of:

A. Narasimham Committee	**B.** CRAFICARD (B. Sivaraman)
C. Nariman Committee	**D.** Gadgil Study Group

Answer B. The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development, chaired by B. Sivaraman.

03. Which body inspects regional rural banks?

A. RBI	**B.** NABARD
C. SIDBI	**D.** Sponsor bank

Answer B. RBI regulates RRBs, but NABARD conducts their statutory inspection.

04. The Lead Bank Scheme was introduced in:

A. 1955	**B.** 1969
C. 1982	**D.** 1991

Answer B. RBI introduced it in 1969 following the Gadgil Study Group and Nariman Committee.

05. The Block Level Bankers' Committee is chaired by:

A. District Collector	**B.** Lead District Manager
C. NABARD DDM	**D.** Block Development Officer

Answer B. The LDM convenes and chairs the BLBC.

06. Potential Linked Credit Plans are prepared by:

A. Lead bank	**B.** NABARD
C. RBI	**D.** State government

Answer B. NABARD prepares PLPs for each district.

07. Under refinance, the credit risk of the borrower is borne by:

A. NABARD	**B.** The lending bank
C. Government of India	**D.** The insurance company

Answer B. Refinance funds the lender; the lender still carries the borrower's risk.

08. The service area approach was introduced in:

A. 1969	**B.** 1989
C. 2004	**D.** 2014

Answer B. It allotted villages to branches from 1989 and was largely withdrawn in 2004.

09. Dual control over cooperative banks refers to:

A. RBI and SEBI	**B.** RBI and the Registrar of Cooperative Societies
C. NABARD and SIDBI	**D.** Centre and states

Answer B. RBI regulates banking functions; the Registrar handles registration and management.

10. Under RBI's 2022 microfinance framework, the household income ceiling for a microfinance loan is:

A. ₹1.25 lakh	**B.** ₹2 lakh
C. ₹3 lakh	**D.** ₹5 lakh

Answer C. Annual household income up to ₹3 lakh; repayments capped at 50% of monthly household income.

11. Who monitors the Lead Bank Scheme in a district on behalf of RBI?

A. Lead District Manager	**B.** Lead District Officer
C. District Development Manager	**D.** Collector

Answer B. The LDO is an RBI officer; the LDM is an officer of the lead bank.

12. NABARD's share capital is held by:

A. RBI fully	**B.** Government of India fully
C. RBI and Government equally	**D.** Public sector banks

Answer B. RBI's stake was transferred to the Government; NABARD is now wholly owned by the Government of India.

13. The SLBC is convened by:

A. RBI regional office	**B.** A designated convenor bank for the state
C. NABARD	**D.** State finance department

Answer B. Each state has a convenor bank that runs the State Level Bankers' Committee.

14. Which Act strengthened RBI's powers over cooperative banks in 2020?

A. NABARD (Amendment) Act	**B.** Banking Regulation (Amendment) Act, 2020
C. RRB (Amendment) Act	**D.** Cooperative Societies Act

Answer B. The BR (Amendment) Act, 2020 gave RBI more powers over management, capital, audit and resolution of cooperative banks.

15. If actual dairy credit is far below the ACP, the first thing a forum should do is:

A. Reallocate targets to other branches	**B.** Identify the constraint, such as missing milk collection
C. Stop dairy lending	**D.** Ask RBI to cut the target

Answer B. Planning forums should diagnose why potential is not being absorbed.

Sources and dates used in this chapter

- NABARD Act, 1981; NABARD website and annual reports.
- RBI Master Direction on the Lead Bank Scheme and related circulars (as revised).
- RBI Master Direction - Regulatory Framework for Microfinance Loans, 2022.
- Banking Regulation (Amendment) Act, 2020; Regional Rural Banks Act, 1976.

MODULE B: FINANCING RURAL DEVELOPMENT

B02 Rural Credit Institutions

28
RRBs from 1 May 2025 (One State, One RRB)

50:15:35
RRB shares: Centre, state, sponsor bank

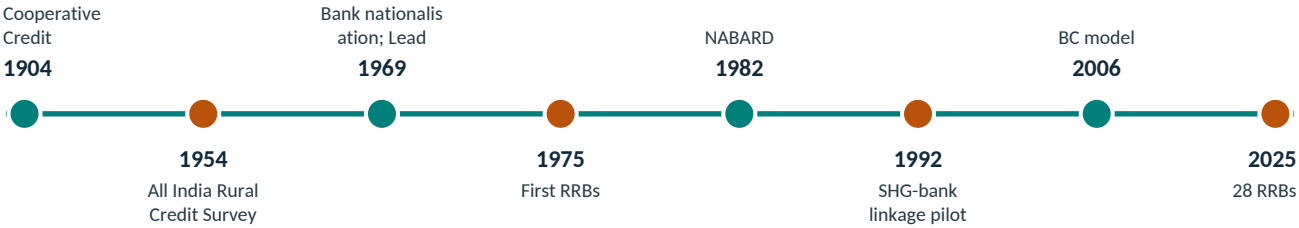
3 tiers
short-term cooperative credit structure

2 Oct 1975
first RRBs set up

Start with the decision. A customer at a village BC point says the agent recorded a ₹5,000 withdrawal but gave her only ₹3,000. Next, a PACS secretary asks your bank for a loan to buy a warehouse. The same day an NBFC-MFI's agent wants to collect instalments at your branch premises. Each case involves a different rural credit institution, with its own rules. This chapter explains them.

India's rural credit system has several layers: cooperatives (the oldest), commercial banks (after nationalisation), regional rural banks, and newer channels such as small finance banks, microfinance institutions and business correspondents. The **multi-agency approach** aims to give every rural household access to at least one formal lender. Each layer has strengths and weaknesses that a banker should understand.

1. The evolution of rural credit



Milestones in institutional rural credit.

The **All India Rural Credit Survey (1954)** found that moneylenders and traders supplied most rural credit and cooperatives only a small share. Its famous conclusion was that "cooperation has failed, but cooperation must succeed". This led to state partnership in cooperatives, then bank nationalisation (1969 and 1980), priority sector lending, RRBs (1975) and NABARD (1982).

2. Cooperative credit structure

Rural cooperative credit has two arms. The **short-term structure** provides crop loans and working capital, mostly in three tiers. The **long-term structure** provides investment credit for land development and minor irrigation through agriculture and rural development banks.



Short-term cooperative credit (three-tier). Some states have a two-tier structure.

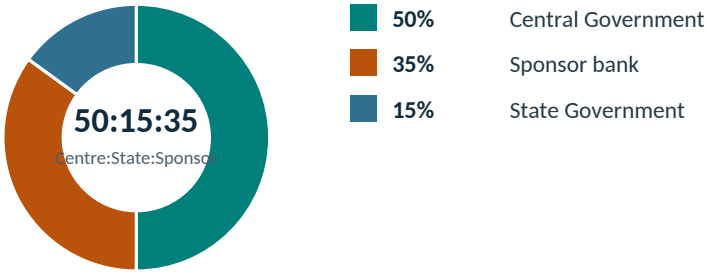
Short-term structure	Long-term structure
• StCB - DCCB - PACS	• SCARDB - PCARDB (state and primary agriculture and rural development banks)
• Crop loans, KCC, working capital	• Investment credit: land development, irrigation, tractors
• Refinanced by NABARD through StCB	• Funded by debentures and NABARD refinance
• PACS also supply inputs and run fair price shops	• Weak recovery in many states

Cooperatives reach deep into villages but suffer from weak capital, political interference, poor recovery and dual control. Recent reforms led by the **Ministry of Cooperation** include **computerisation of PACS** on a common national software platform, **model bye-laws** that let PACS take up 25+ activities (dairy, fisheries, warehousing, common service centres, LPG and petrol outlets, Jan Aushadhi Kendras), and a plan for PACS in every panchayat. A PACS seeking a warehouse loan may also qualify for Agriculture Infrastructure Fund subvention (Chapter A04).

3. Regional rural banks

RRBs were created by an ordinance in 1975, replaced by the **Regional Rural Banks Act, 1976**, on the recommendation of the Narasimham Working Group (1975). The first five RRBs began on **2 October 1975**. They combine the local feel of cooperatives with the business organisation of commercial banks, and focus on small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.

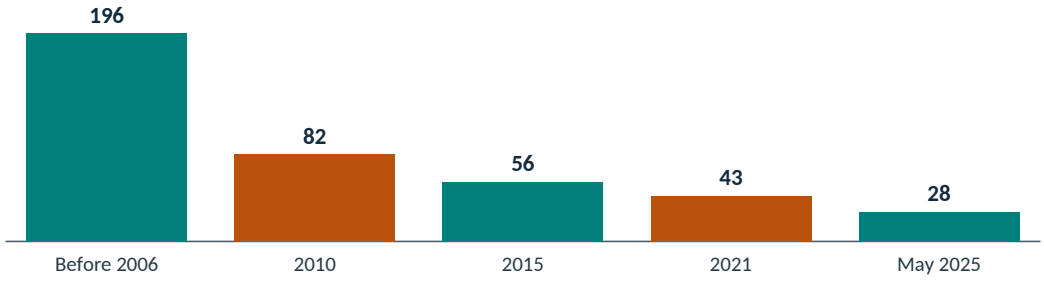
RRB share capital (issued capital)



After the 2015 amendment RRBs may raise capital from other sources, but the Centre and sponsor bank together must hold at least 51%.

RRBs have been consolidated in four phases, from 196 to 82 (2006-2010), to 56 (2013-2015), to 43 (2019-2021) and, under **One State, One RRB**, to **28 from 1 May 2025**, covering 26 states and two union territories with over 22,000 branches in about 700 districts. They have priority sector targets of 75% of adjusted net bank credit, higher than commercial banks.

Number of RRBs after each consolidation phase



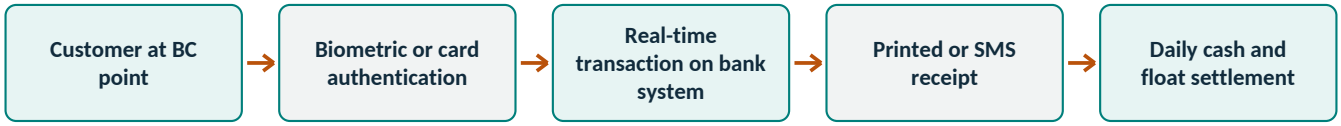
Consolidation aims at viability, technology and better capital.

4. Commercial banks, small finance banks and payments banks

After nationalisation, commercial banks opened thousands of rural branches and became the largest suppliers of agricultural credit. They serve rural customers through branches, ultra-small branches, ATMs, and **business correspondents (BCs)**. **Small finance banks**, licensed from 2015, must lend **60%** of adjusted net bank credit to the priority sector from 2025-26 (reduced from 75% in June 2025) and keep at least half their loan book in loans up to ₹25 lakh. **Payments banks** accept limited deposits and offer payments and remittances but cannot lend.

5. Business correspondents and facilitators

RBI permitted banks in 2006 to use **business facilitators (BFs)** and **business correspondents (BCs)**. A BF provides non-financial services: identifying borrowers, collecting applications, creating awareness and follow-up for recovery. A BC can also conduct financial transactions on behalf of the bank: cash deposits and withdrawals, small remittances, account opening and disbursal of small loans, as permitted. The bank is fully responsible for the acts of its BCs.



A secure BC transaction. Each step is a control: authentication, real-time posting, receipt and reconciliation.

At the branch

In a dispute about a BC transaction, preserve the receipt and system log, reconcile the BC's cash and float, and register the complaint in the bank's system. The bank cannot tell the customer to settle the matter with the agent: the BC acts for the bank.

6. Microfinance institutions and insurance

NBFC-MFIs, banks, SFBs and other NBFCs lend **microfinance loans**: collateral-free loans to households with annual income up to ₹3 lakh (Chapter B01). Joint liability groups and SHGs are the main delivery models. The 2022 framework applies the same rules to all lenders: a board-approved policy on pricing, no collateral, repayment obligations capped at 50% of household income, fair recovery practices and a key facts statement.

Microinsurance transfers specified risks (life, health, livestock, crop) for small premiums. Banks act as corporate agents or distribute government schemes such as PMJJBY and PMSBY. Insurance protects the borrower's ability to repay after a shock, so it complements credit rather than replacing it.

7. Technology across institutions

Core banking at RRBs and cooperative banks, Aadhaar-enabled payments, UPI, RuPay KCC cards and the computerisation of PACS have connected rural institutions to national payment systems. Controls must keep pace: strong authentication, real-time posting, receipts, daily reconciliation, limits on BC cash and a working grievance channel. Account opening and active, safe use are different measures of success.

Key facts to remember

Fact	Detail
All India Rural Credit Survey	1954; "cooperation has failed, but cooperation must succeed"
First RRBs	2 October 1975; RRB Act, 1976 (Narasimham Working Group, 1975)
RRB shareholding	Centre 50%, sponsor bank 35%, state 15%
RRBs now	28 from 1 May 2025 (from 43)
RRB PSL target	75% of ANBC
Short-term coop structure	StCB - DCCB - PACS
Long-term coop structure	SCARDB - PCARDB
BC / BF model	Permitted by RBI in 2006; bank responsible for BC acts
Small finance banks	PSL 60% of ANBC from 2025-26 (was 75%); at least 50% of loans up to ₹25 lakh

Worked case

Situation. A woman says the BC recorded a ₹5,000 withdrawal but paid her ₹3,000.

How to work it. Take her written complaint with the receipt (or SMS) and transaction reference. Pull the system log showing time, amount and authentication. Check the BC's cash book and float for that day. If the BC short-paid, credit the customer, recover from the BC under the agreement and review the agent. If not established, record the findings and tell the customer how to escalate. Report repeated complaints about the same agent to the BC network manager.

Quick revision

Remember	In one line
AIRCS 1954	Found moneylenders dominant; pushed state partnership in cooperatives.
Short-term coop	StCB - DCCB - PACS.
RRB capital	Centre 50 : State 15 : Sponsor 35.
RRB count	28 from 1 May 2025.
BF vs BC	BF: non-financial help. BC: transactions on the bank's behalf.
Accountability	The bank is responsible for its BCs.
SFB	60% PSL from 2025-26; half of loans up to ₹25 lakh.
PACS reform	Computerisation and model bye-laws for many new activities.

Practice with explanations

01. The first RRBs were set up on:

A. 12 July 1982 **B.** 2 October 1975
C. 19 July 1969 **D.** 1 April 1980

Answer B. Five RRBs began on 2 October 1975.

02. The shareholding of an RRB among Centre, state government and sponsor bank is:

A. 50:35:15 **B.** 50:15:35
C. 35:15:50 **D.** 40:20:40

Answer B. Centre 50%, state 15%, sponsor bank 35%.

03. After the fourth phase of amalgamation (May 2025), the number of RRBs is:

A. 43 **B.** 35
C. 28 **D.** 22

Answer C. One State, One RRB reduced RRBs from 43 to 28.

04. The three-tier short-term cooperative structure is:

A. SCARDB - PCARDB - PACS **B.** StCB - DCCB - PACS
C. NABARD - StCB - DCCB **D.** UCB - DCCB - PACS

Answer B. State cooperative bank at the top, DCCB in the middle, PACS at village level.

05. The All India Rural Credit Survey was published in:

A. 1947 **B.** 1954
C. 1969 **D.** 1975

Answer B. The AIRCS Committee (A.D. Gorwala) reported in 1954.

06. Which can conduct cash transactions on behalf of a bank?

A. Business facilitator **B.** Business correspondent
C. Both **D.** Neither

Answer B. BCs can do permitted transactions; BFs give only non-financial support.

07. RRBs are required to lend to the priority sector:

A. 40% of ANBC	**B.** 60% of ANBC
C. 75% of ANBC	**D.** 100% of ANBC

Answer C. RRBs have a 75% PSL target; small finance banks 60% from 2025-26.

08. A small finance bank must keep at least what share of its loan portfolio in loans up to ₹25 lakh?

A. 25%	**B.** 40%
C. 50%	**D.** 75%

Answer C. At least 50% of loans should be of ₹25 lakh or less.

09. Payments banks cannot:

A. Accept deposits	**B.** Issue debit cards
C. Lend	**D.** Offer remittances

Answer C. Payments banks accept limited deposits and provide payments services but cannot lend.

10. The long-term cooperative credit structure provides mainly:

A. Crop loans	**B.** Investment credit for land development and irrigation
C. Gold loans	**D.** Housing loans for urban areas

Answer B. SCARDBs and PCARDBs give long-term investment credit.

11. Under the RRB Act as amended in 2015, the combined shareholding of the Centre and sponsor bank must not fall below:

A. 26%	**B.** 49%
C. 51%	**D.** 75%

Answer C. Even after raising capital from others, Centre plus sponsor bank must hold at least 51%.

12. A customer reports short payment at a BC point. The bank should:

A. Tell her to settle with the agent	**B.** Investigate using receipt, log and BC cash records, as the bank is responsible
C. Close her account	**D.** Ask her to file a police complaint first

Answer B. The BC acts for the bank, so the bank investigates and resolves.

13. Microinsurance mainly helps rural credit by:

A. Replacing collateral	**B.** Protecting repayment capacity after a shock
C. Reducing interest rates	**D.** Increasing loan limits

Answer B. Insurance pays when a covered risk occurs, so the household can continue repaying.

14. Which committee recommended the setting up of RRBs?

A. Narasimham Working Group (1975)	**B.** CRAFICARD (1979)
C. Gadgil Study Group (1969)	**D.** Rangarajan Committee (2008)

Answer A. The Working Group on Rural Banks under M. Narasimham recommended RRBs in 1975.

15. Model bye-laws for PACS mainly aim to:

A. Convert PACS into commercial banks	**B.** Let PACS take up many new business activities
C. Close weak PACS	**D.** Merge PACS with RRBs

Answer B. They allow PACS to diversify into dairy, fisheries, storage, CSCs and other services.

Sources and dates used in this chapter

- Regional Rural Banks Act, 1976 (as amended in 2015); Department of Financial Services notifications on RRB amalgamation effective 1 May 2025.
- RBI circular RBI/2025-26/61 (20 June 2025) revising the PSL target for small finance banks to 60%.
- RBI circulars on business correspondents and business facilitators (2006, as revised); licensing guidelines for small finance banks (2014) and payments banks.
- Ministry of Cooperation: PACS computerisation and model bye-laws.
- Report of the All India Rural Credit Survey Committee, 1954.

MODULE B: FINANCING RURAL DEVELOPMENT

B03 Financing Agriculture and Allied Activities

₹2 lakh
collateral-free agri loans (from 1 Jan 2025)

7% to 4%
KCC rate under MISS with prompt repayment

5 years
KCC validity, with annual review

1998
Kisan Credit Card introduced

Start with the decision. A farmer with 2 acres wants seed and fertiliser money for paddy now, and a diesel pump that will pay for itself over five years. His neighbour wants a loan for two buffaloes. A third farmer's crop was damaged by hail and he cannot repay his KCC. Three different credit needs, three different products and rules.

Agricultural credit is of two kinds. **Short-term (production) credit** meets seasonal costs and is repaid from the harvest. **Investment (term) credit** buys assets that raise income over several years. Allied activities such as dairy, poultry and fisheries need working capital as well as assets. The Kisan Credit Card brings these needs into one flexible facility, and government schemes reduce the interest cost for prompt payers.

1. Types of agricultural credit

Type	Purpose	Typical repayment
Crop loan (short-term)	Seed, fertiliser, pesticide, labour, irrigation charges for one season	After harvest; usually within 12 months
Working capital for allied activities	Feed, fodder, medicines for dairy, poultry, fisheries	Monthly or by production cycle
Investment credit (term loan)	Pumps, wells, tractors, land development, orchards, dairy animals, sheds	3 to 9 years or more, matched to asset life and income
Post-harvest and marketing credit	Storage, pledge loans against warehouse receipts	On sale of produce
Consumption and contingency	Household needs within the KCC limit	With the crop loan

2. The Kisan Credit Card (KCC)

The KCC was introduced in **1998**, based on a model prepared by NABARD (R.V. Gupta committee). It was revised in 2012 and extended to **animal husbandry and fisheries** farmers in 2018-19. It gives farmers a revolving cash-credit limit for crop and allied needs plus a term-loan component, with a **RuPay debit card** for withdrawals. Owner cultivators, tenant farmers, oral lessees, sharecroppers, SHGs and JLGs of farmers are eligible.

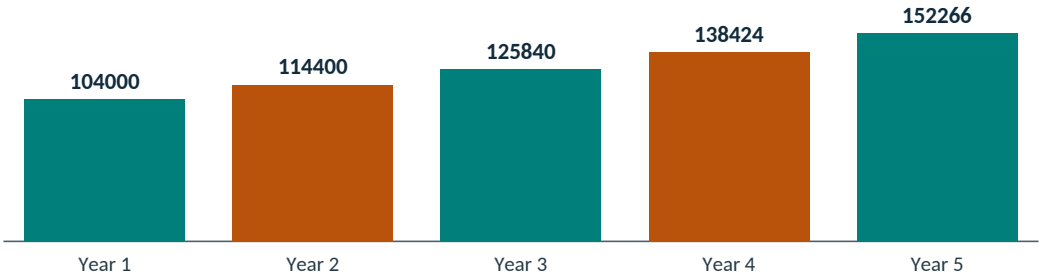
How the KCC limit is fixed (short-term component)

Scale of finance x area → **+ 10% post-harvest, household and consumption needs** → **+ 20% repairs and maintenance of farm assets** → **+ crop and asset insurance** → **= Year 1 limit; +10% each later year**

The limit is valid for five years, with a 10% increase each year for cost escalation, subject to annual review.

The **scale of finance** is the cost of cultivation per acre or hectare for each crop, fixed each year by the District Level Technical Committee (DLTC) chaired by the district collector or a nominee, with NABARD and banks as members. Term loans for investment are added separately based on unit cost and repayment capacity.

KCC limit over five years for the worked example (₹)



Scale of finance ₹40,000 per acre x 2 acres = ₹80,000; +10% (₹8,000) + 20% (₹16,000) = ₹1,04,000 before insurance; then +10% a year.

Cheaper credit: interest subvention

Under the **Modified Interest Subvention Scheme (MISS)**, a central sector scheme since 2006-07, banks lend short-term crop and allied loans through KCC at **7%** a year and receive interest subvention from the Government (1.5% a year for 2025-26). Farmers who repay on time get a further **3% prompt repayment incentive (PRI)**, so their effective rate is **4%**. The limit for subvented loans has been ₹3 lakh; the **Union Budget 2025-26 announced an increase to ₹5 lakh**. Claims are processed through the Kisan Rin Portal.

Check before use. The ₹5 lakh MISS limit was announced in the Budget for 2025-26. Check the MISS operational guidelines for the current year for the limit actually notified, the sub-limit for allied activities, and the treatment of post-harvest loans against warehouse receipts.

Check before use. RBI issued consolidated **Kisan Credit Card Directions, 2026** on 19 June 2026, applicable to commercial banks, SFBs, RRBs and rural cooperative banks from 1 January 2027. Check them for the current limit-fixing method, validity and documentation.

Memory trick

KCC limit = **SoF x Area + 10 + 20 + Insurance**, then **+10% a year for 5 years**. MISS: **7 - 3 = 4**.

3. Collateral and security

RBI has raised the limit for **collateral-free agricultural loans**, including loans for allied activities, from ₹1.6 lakh to **₹2 lakh per borrower** with effect from **1 January 2025**. Banks must waive collateral security and margin requirements up to this limit. Beyond it, banks may take a mortgage or charge on land or hypothecation of assets per their policy. Where tie-up arrangements exist (for example, with a sugar mill or dairy that recovers dues), banks may lend higher amounts without collateral under their board policy.

Up to ₹2 lakh	Above ₹2 lakh
• No collateral security	• Collateral as per bank policy
• No margin	• Margin as per scheme or policy
• Hypothecation of crops or assets financed is permitted	• Mortgage or charge on land often taken
• Bank still appraises repayment	• Higher scrutiny of land records

4. Allied activities

Dairy, poultry, goat and sheep rearing, piggery, fisheries and sericulture have shorter production cycles and more frequent income than crops. Appraisal focuses on the **unit cost** (animals, shed, equipment), **feed and fodder** availability, **veterinary** support, **insurance**, and above all the **market link** (milk route, buyer, processor). NABARD publishes indicative unit costs by state. The Animal Husbandry Infrastructure Development Fund (AHIDF) and the Fisheries and Aquaculture Infrastructure Development Fund (FIDF) support processing and infrastructure with interest subvention.

Worked case

Situation. A dairy loan for two buffaloes: unit cost ₹1.8 lakh including shed and insurance; each buffalo yields 10 litres a day for 300 days a year; milk price ₹40 a litre; feed and other costs are 60% of milk income.

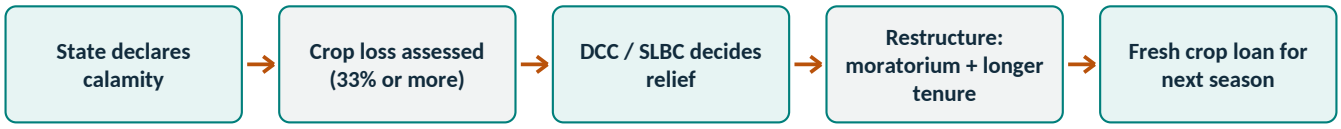
How to work it. Milk income: 2 x 10 x 300 x 40 = ₹2,40,000 a year. Costs at 60%: ₹1,44,000. Net surplus: ₹96,000 a year (₹8,000 a month on average). An instalment of about ₹4,000 a month over five years leaves a safety margin of 2 times. Stagger the purchase of the two animals by six months so that both are not dry at the same time, insure both, and route milk payments through the dairy society to the loan account.

5. Term loans for farm investment

For a pump, tractor, orchard or land development, appraise: technical feasibility (water availability, soil, power), economic viability (incremental income from the investment), and repayment capacity. Repayment should match the asset's life and the income pattern: half-yearly instalments after harvests for crop-based assets, monthly for dairy. A **gestation period** (moratorium) is allowed for assets like orchards that take years to bear fruit. NABARD refinance is available for eligible investment credit.

6. Relief in natural calamities

When the state government declares a natural calamity and crop loss is assessed (usually through the annewari or crop-cutting results), RBI's directions on relief measures apply. In outline: existing crop loans can be restructured or converted into term loans where crop loss is 33% or more; repayment can be spread over a longer period depending on the extent of loss; a moratorium of at least one year is given; fresh crop loans are provided for the next season; and restructured loans are not treated as NPA merely because of restructuring. Under MISS, restructured loans receive interest subvention for a period.



Relief process. Check the current RBI directions for exact periods and asset classification rules.

Check before use. RBI has consolidated its instructions on relief measures for natural calamities into revised Directions. Verify the current periods of restructuring, moratorium and asset classification before applying them to an account.

7. Gold loans for agriculture

Many farmers pledge gold ornaments for crop loans because it is quick. A gold loan counts as agricultural credit only if the money is used for agriculture; banks must verify the end use and land or cultivation details, not just the gold. RBI has issued consolidated directions on lending against gold and silver collateral covering loan-to-value ratios, valuation, auction procedures and return of pledged ornaments. Appraise ownership, purity, valuation, margin, safe custody and the borrower's repayment capacity; the gold is security, not a substitute for appraisal.

Exam tip

A gold loan is **agricultural (PSL)** only when the proceeds are used for agriculture and this is verified. Otherwise it is a non-priority personal loan.

Key facts to remember

Fact	Detail
KCC	Introduced 1998; revised 2012; extended to animal husbandry and fisheries 2018-19
KCC validity	Five years, with 10% annual increase for cost escalation
KCC limit year 1	SoF x area + 10% (post-harvest, household) + 20% (repairs) + insurance
Scale of finance	Fixed annually by the District Level Technical Committee
MISS	Since 2006-07; 7% lending rate; 3% PRI; effective 4%; Budget 2025-26 limit raised to ₹5 lakh (announced)

Fact	Detail
Collateral-free agri loans	₹2 lakh per borrower from 1 January 2025 (was ₹1.6 lakh)
Calamity relief trigger	Crop loss of 33% or more, after declaration by the state

Quick revision

Remember	In one line
Short-term vs term	Season's costs vs assets that earn over years.
KCC limit	SoF x area + 10% + 20% + insurance; +10% a year.
DLTC	Fixes the scale of finance for each crop in the district.
MISS	7% rate, 3% PRI, 4% effective for prompt payers.
Collateral-free	₹2 lakh per borrower for agriculture and allied.
Allied appraisal	Unit cost, feed, vet support, insurance, market link.
Calamity relief	33%+ crop loss; restructure, moratorium, fresh loan.
Gold loan as PSL	Only if end use is agriculture and is verified.

Practice with explanations

01. The Kisan Credit Card scheme was introduced in:

A. 1991 **B.** 1998
C. 2004 **D.** 2012

Answer B. KCC was introduced in 1998 on a model prepared by NABARD.

02. The KCC was extended to animal husbandry and fisheries farmers in:

A. 2004-05 **B.** 2012-13
C. 2018-19 **D.** 2022-23

Answer C. The facility was extended to allied activities in 2018-19.

03. In the first year, the KCC short-term limit adds what percentage of the crop component for repairs and maintenance of farm assets?

A. 10% **B.** 15%
C. 20% **D.** 30%

Answer C. 10% is added for post-harvest and household needs, 20% for repairs and maintenance.

04. The scale of finance for crops is fixed by:

A. RBI **B.** NABARD alone
C. District Level Technical Committee **D.** Lead bank head office

Answer C. The DLTC fixes scales of finance each year.

05. Under MISS, a farmer who repays promptly pays an effective interest rate of:

A. 2% **B.** 4%
C. 7% **D.** 9%

Answer B. 7% lending rate less 3% prompt repayment incentive = 4%.

06. The limit for collateral-free agricultural loans from 1 January 2025 is:

A. ₹1 lakh **B.** ₹1.6 lakh
C. ₹2 lakh **D.** ₹3 lakh

Answer C. RBI raised it from ₹1.6 lakh to ₹2 lakh per borrower.

07. The Union Budget 2025-26 announced raising the MISS loan limit from ₹3 lakh to:

A. ₹4 lakh **B.** ₹5 lakh
C. ₹6 lakh **D.** ₹10 lakh

Answer B. The Budget announced an increase to ₹5 lakh.

08. A KCC limit of ₹1,04,000 in year 1 becomes how much in year 3 at 10% annual escalation?

A. ₹1,14,400	**B.** ₹1,24,800
C. ₹1,25,840	**D.** ₹1,38,424

Answer C. 1,04,000 x 1.1 x 1.1 = ₹1,25,840.

09. Relief measures for natural calamities usually apply when crop loss is at least:

A. 10%	**B.** 25%
C. 33%	**D.** 50%

Answer C. A crop loss of 33% or more is the usual threshold.

10. A gold loan counts as agricultural credit when:

A. The borrower lives in a village	**B.** The gold is from a farmer
C. The proceeds are used for agriculture and this is verified	**D.** The loan is below ₹2 lakh

Answer C. End use, not the borrower's location or the security, decides classification.

11. Which is the most important factor in appraising a dairy loan?

A. Colour of the animals	**B.** A reliable market link for milk
C. The borrower's land size alone	**D.** The age of the borrower

Answer B. Without a buyer, milk income cannot repay the loan.

12. Annual milk income from 2 buffaloes x 10 litres x 300 days x ₹40 is:

A. ₹1,20,000	**B.** ₹2,40,000
C. ₹3,60,000	**D.** ₹4,80,000

Answer B. 2 x 10 x 300 x 40 = ₹2,40,000.

13. The validity of a KCC is:

A. 1 year	**B.** 3 years
C. 5 years	**D.** 10 years

Answer C. Five years, with annual review and limit enhancement.

14. Investment credit for an orchard usually needs:

A. Monthly repayment from month 1	**B.** A gestation period before repayment starts
C. No appraisal	**D.** Repayment within one season

Answer B. Orchards take years to bear fruit, so a moratorium matches repayment to income.

15. MISS was first introduced in:

A. 1998-99	**B.** 2006-07
C. 2014-15	**D.** 2020-21

Answer B. The interest subvention scheme began in 2006-07.

Sources and dates used in this chapter

- RBI circular RBI/2024-2025/96 on collateral-free agricultural loans (6 December 2024), effective 1 January 2025.
- Ministry of Agriculture and Farmers Welfare: MISS guidelines; PIB releases on KCC and MISS (February 2025, March 2026).
- RBI Kisan Credit Card Directions, 2026 (19 June 2026; effective 1 January 2027).
- RBI Master Circular / Directions on the Kisan Credit Card scheme and on relief measures for natural calamities (as revised).
- NABARD indicative unit costs for investment credit.

MODULE B: FINANCING RURAL DEVELOPMENT

B04 Financing the Rural Non-Farm Sector



35%	₹20 lakh	18	5%
highest PMEGP margin money subsidy (rural special	Mudra Tarun Plus ceiling	trades under PM Vishwakarma	PM Vishwakarma loan rate to artisan

Start with the decision. A potter in your village wants ₹3 lakh for an electric wheel and kiln. He sells to traders who pay after 60 days, buys clay for cash, and his son wants to start a mobile repair shop. Should you give one loan or two? Term loan or working capital? Is there a scheme that cuts his cost? This chapter covers how to finance rural enterprises outside farming.

The **rural non-farm sector (RNFS)** covers all rural economic activity other than crop and livestock production: agro-processing, handicrafts, handlooms, village and khadi industries, construction, transport, trade, repairs and services. It diversifies household income away from the monsoon, absorbs labour that land cannot, and keeps value addition in the village. For banks, the RNFS is a large market of small borrowers with real but irregular cash flows.

1. What the rural non-farm sector includes

Group	Examples	Typical credit need
Agro-processing	Rice and flour mills, oil expellers, dal mills, jaggery, food processing, dairy products	Machinery term loan + working capital for stocks
Artisans and village industries	Pottery, carpentry, smithy, leather, handloom, handicrafts, khadi	Small tools, raw material, credit for receivables
Trade	Kirana shops, input dealers, small traders	Cash credit against stocks
Services	Repair shops, tailoring, beauty parlours, CSCs, BC outlets, transport	Equipment or vehicle loan, small overdraft
Construction and housing materials	Brick kilns, fabrication, masonry	Seasonal working capital, equipment

NABARD's NAFIS 2021-22 showed that in non-agricultural rural households, salaried jobs supplied about 57% of income and wage labour about 26% (Chapter A03). Self-employment in non-farm enterprises is smaller but is where bank credit makes the most difference.

2. Special features and problems

- **Raw materials:** irregular supply, price swings, and purchase for cash while sales are on credit.
- **Markets:** dependence on a few traders or middlemen, weak bargaining power, poor design and quality standards.
- **Technology:** old tools, low productivity, power shortages; new machines need training and maintenance.
- **Finance:** no audited accounts, mixed household and business cash, little collateral, informal borrowing.
- **Skills and management:** craft skill without costing, pricing or bookkeeping.



At the branch

A rural enterprise often earns a profit and still runs out of cash, because it pays suppliers immediately and is paid by buyers after 60 days. Finance the gap with working capital; do not force the borrower to use a term loan to fund stocks and receivables.

3. Fixed capital and working capital

Term loan (fixed capital)

- Machinery, tools, shed, vehicle
- Repaid over 3-7 years from profits and depreciation
- Appraise capacity, cost of asset, DSCR
- Security: hypothecation of asset

Working capital

- Raw material, stock in process, finished goods, receivables
- Revolving cash credit or overdraft
- Appraise operating cycle and turnover
- Security: hypothecation of stocks and book debts

For micro and small enterprises with fund-based working capital limits up to ₹5 crore, RBI guidelines (based on the Nayak Committee) provide that the limit should be at least **20% of projected annual turnover**, with the borrower bringing margin of 5% of turnover. For very small units, simple turnover-based assessment is practical. For larger units, assess the operating cycle: days of raw material, work-in-progress, finished goods and receivables, minus supplier credit.

Worked case

Situation. The potter's projected annual sales are ₹6 lakh. He buys clay and fuel for cash, holds 30 days of stock and gives traders 60 days of credit. The electric wheel and kiln cost ₹2.4 lakh.

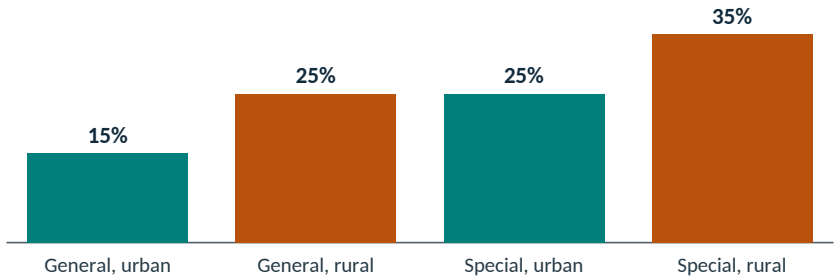
How to work it. Working capital by the turnover method: 20% of ₹6 lakh = ₹1.2 lakh, of which 5% of turnover (₹30,000) is his margin and ₹90,000 the bank limit. By the operating cycle: 90 days of a ₹6 lakh business is about ₹1.48 lakh tied up, so the turnover method is reasonable. Give a ₹2.4 lakh term loan for the equipment (less margin) and a separate ₹90,000 cash credit. Check if PM Vishwakarma or PMEGP fits (see below). The son's repair shop is a separate enterprise and should be appraised on its own.

4. Government schemes for rural non-farm enterprises

Scheme	For whom	Key features
PMEGP (2008; KVIC nodal)	New micro enterprises; individuals 18+, SHGs, institutions	Margin money subsidy 15-35% of project cost (higher for rural and special categories); max project ₹50 lakh manufacturing, ₹20 lakh service; own contribution 5-10%; EDP training required
PM Vishwakarma (17 Sept 2023)	Artisans in 18 traditional trades (carpenter, blacksmith, potter, cobbler, tailor and others)	Certificate and ID; training with ₹500 a day stipend; ₹15,000 toolkit incentive; collateral-free loans of ₹1 lakh (18 months) then ₹2 lakh (30 months) at 5%, with Government subvention up to 8%
PMMY (Mudra, 2015)	Non-farm income-generating micro enterprises	Shishu up to ₹50,000; Kishore up to ₹5 lakh; Tarun up to ₹10 lakh; Tarun Plus up to ₹20 lakh for those who repaid Tarun loans
Stand-Up India (2016)	SC/ST and women entrepreneurs	Loans of ₹10 lakh to ₹1 crore for greenfield enterprises
SFURTI	Clusters of traditional industries	Common facility centres, design and marketing support

Check before use. PMEGP was approved for 2021-22 to 2025-26. Check the current scheme period, subsidy rates and project cost limits on the KVIC PMEGP portal before advising applicants.

PMEGP margin money subsidy, new units (% of project cost)



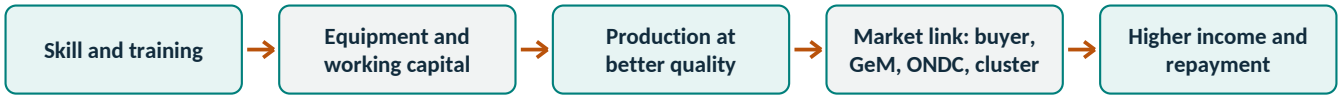
Special category includes SC, ST, OBC, minorities, women, ex-servicemen, persons with disabilities, NER, hill and border areas. Higher rates apply in rural areas.

Memory trick

Mudra ladder: **Shishu 0.5 - Kishore 5 - Tarun 10 - Tarun Plus 20** (₹ lakh).

5. Training, technology and markets

Credit works best with training and market links. **RSETIs** give free short courses with credit linkage; the **Entrepreneurship Development Programme** is compulsory under PMEGP. KVIC and state Khadi and Village Industries Boards help with design and marketing. Government e-Marketplace (GeM), ONDC and exhibitions such as Saras Aajeevika Melas open new buyers. Before financing a new machine, check that the operator can use it, that power is adequate, that spares and repair services exist, and that the extra output can be sold.



Technology raises income only when it reaches a market.

6. Appraisal checklist for a rural non-farm loan

- Who is the borrower and what is his skill and experience? Is the enterprise new or existing?
- Capacity: how much can the unit produce per day and per year? At what utilisation is it realistic?
- Costs: raw material, power, labour, rent, transport, repairs. Prices: what buyers actually pay, after credit.
- Cash cycle: days of stock and receivables; supplier credit.
- Stress test: sales 20% lower, collections 30 days slower. Does the unit still repay?
- Scheme eligibility, subsidy flow and any lock-in conditions.
- Security and guarantee: hypothecation of assets and stocks; CGTMSE cover where eligible (Chapter B05).

Key facts to remember

Fact	Detail
RNFS	All rural activity other than crop and livestock production
Working capital for MSEs (limit up to ₹5 crore)	At least 20% of projected turnover; borrower margin 5% of turnover
PMEGP	Subsidy 15-35%; max project ₹50 lakh (manufacturing), ₹20 lakh (service); KVIC nodal agency
PM Vishwakarma	Launched 17 September 2023; 18 trades; ₹1 lakh + ₹2 lakh loans at 5%; ₹15,000 toolkit
Mudra	Shishu ₹50,000; Kishore ₹5 lakh; Tarun ₹10 lakh; Tarun Plus ₹20 lakh
Stand-Up India	₹10 lakh to ₹1 crore for SC/ST and women, greenfield

Quick revision

Remember	In one line
RNFS	Non-farm rural activity: processing, crafts, trade, services.
Profit vs cash	A profitable unit can still need working capital for receivables.
Nayak norm	WC at least 20% of projected turnover for MSE limits up to ₹5 crore.
PMEGP	Margin money subsidy 15-35%; EDP training compulsory.
PM Vishwakarma	Artisans, 18 trades, 5% loans, ₹15,000 toolkit.
Mudra	Shishu, Kishore, Tarun, Tarun Plus up to ₹20 lakh.
Market link	New technology raises income only when output can be sold.

Practice with explanations

01. Which of these is NOT part of the rural non-farm sector?

A. Rice mill	**B.** Village tailoring shop
C. Paddy cultivation	**D.** Brick kiln

Answer C. Crop production is farm activity; the others are non-farm.

02. Under RBI guidelines for MSE borrowers with limits up to ₹5 crore, working capital should be at least what share of projected turnover?

A. 10%	**B.** 20%
C. 25%	**D.** 30%

Answer B. The Nayak Committee norm: at least 20% of projected annual turnover, with 5% borrower margin.

03. Projected turnover of ₹6 lakh gives a minimum working capital requirement (turnover method) of:

A. ₹60,000	**B.** ₹90,000
C. ₹1.2 lakh	**D.** ₹1.5 lakh

Answer C. 20% of ₹6 lakh = ₹1.2 lakh; the bank limit is ₹90,000 after the 5% (₹30,000) margin.

04. The maximum margin money subsidy under PMEGP is:

A. 15%	**B.** 25%
C. 35%	**D.** 50%

Answer C. 35% for special category beneficiaries in rural areas.

05. The nodal agency for PMEGP at national level is:

A. NABARD	**B.** SIDBI
C. KVIC	**D.** NIRDPR

Answer C. The Khadi and Village Industries Commission is the national nodal agency.

06. PM Vishwakarma was launched on:

A. 15 August 2023	**B.** 17 September 2023
C. 2 October 2023	**D.** 1 April 2024

Answer B. It was launched on 17 September 2023 (Vishwakarma Jayanti).

07. The concessional interest rate to artisans under PM Vishwakarma is:

A. 4%	**B.** 5%
C. 7%	**D.** 8%

Answer B. Borrowers pay 5%; the Government provides subvention up to 8%.

08. The second tranche loan under PM Vishwakarma is up to:

A. ₹1 lakh	**B.** ₹2 lakh
C. ₹3 lakh	**D.** ₹5 lakh

Answer B. ₹1 lakh first (18 months), then up to ₹2 lakh (30 months).

09. The Tarun Plus category under Mudra covers loans up to:

A. ₹10 lakh	**B.** ₹15 lakh
C. ₹20 lakh	**D.** ₹50 lakh

Answer C. Tarun Plus (₹10-20 lakh) is for borrowers who have repaid Tarun loans.

10. Stand-Up India loans range from:

A. ₹50,000 to ₹10 lakh	**B.** ₹10 lakh to ₹1 crore
C. ₹1 crore to ₹5 crore	**D.** ₹5 lakh to ₹50 lakh

Answer B. Greenfield loans of ₹10 lakh to ₹1 crore for SC/ST and women entrepreneurs.

11. An artisan pays suppliers in cash but gets paid after 60 days. The right additional facility is:

A. A longer term loan	**B.** Working capital (cash credit)
C. A gold loan	**D.** A personal loan

Answer B. The gap between paying and being paid is a working capital need.

12. Which training is compulsory under PMEGP before the loan is released?

A. RSETI course	**B.** Entrepreneurship Development Programme
C. Financial literacy camp	**D.** Digital literacy course

Answer B. EDP training must be completed under PMEGP.

13. What is the main purpose of SFURTI?

A. Crop insurance	**B.** Development of traditional industry clusters
C. Rural roads	**D.** Housing

Answer B. It funds common facilities, design and marketing in clusters of traditional industries.

14. Before financing a new machine for a rural unit, the banker should check:

A. Only the price of the machine	**B.** Skill, power, spares and the market for extra output
C. The borrower's age only	**D.** Only collateral

Answer B. Technology must be usable, maintainable and lead to sales.

15. In a stress test for a rural enterprise, a sensible assumption is:

A. Sales 20% higher	**B.** Sales lower and collections slower
C. No change at all	**D.** Interest rate zero

Answer B. Test repayment under weaker sales and delayed receipts.

Sources and dates used in this chapter

- Ministry of MSME and KVIC: PMEGP guidelines (2021-22 to 2025-26); PM Vishwakarma scheme guidelines (2023).
- Department of Financial Services: PMMY (Mudra) and Stand-Up India; Union Budget 2024-25 (Tarun Plus).
- RBI Master Direction on lending to the MSME sector (working capital assessment).
- NABARD, NAFIS 2021-22.

MODULE B: FINANCING RURAL DEVELOPMENT

B05 SME Finance

₹2.5 cr / ₹10 cr
micro enterprise: investment / turnover

45 days
maximum payment period for MSE suppliers

₹10 crore
CGTMSE guarantee ceiling (from 1 Apr 2025)

₹10 lakh
collateral-free MSE loans (mandatory)

Start with the decision. A rice mill in a market town has a Udyam certificate as a small enterprise. Its turnover has grown, a large buyer pays after 90 days, and it wants a second term loan for a sortex machine. Is it still small? Can it claim interest from the buyer for late payment? Is the new loan collateral-free? This chapter answers these questions for rural and semi-urban MSMEs.

Micro, small and medium enterprises (MSMEs) are the main non-farm employers in rural and semi-urban India. They are defined by law under the **MSMED Act, 2006**, registered on the **Udyam** portal, protected against delayed payment, and supported by credit guarantee and refinance institutions. Banks lend to them for fixed assets and working capital, and must also be able to spot early stress and use the revival framework.

1. Classification of MSMEs

Since 1 July 2020 enterprises are classified on a **composite test** of investment in plant and machinery or equipment **and** annual turnover, with no difference between manufacturing and services. The limits were raised with effect from **1 April 2025** (notification of 21 March 2025). Export turnover is excluded from turnover for classification.

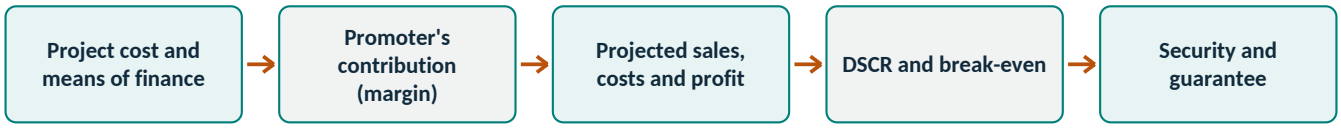
Category	Investment up to	Turnover up to	Earlier limits (2020)
Micro	₹2.5 crore	₹10 crore	₹1 crore / ₹5 crore
Small	₹25 crore	₹100 crore	₹10 crore / ₹50 crore
Medium	₹125 crore	₹500 crore	₹50 crore / ₹250 crore

Exam tip

An enterprise must satisfy **both** limits to stay in a category. If either investment or turnover crosses the ceiling, it moves up. The 2025 revision raised investment limits 2.5 times and turnover limits 2 times.

Udyam Registration, free and paperless, based on Aadhaar and PAN, started on 1 July 2020; it pulls investment and turnover data from income tax and GST records. Informal micro enterprises without GST can register on the **Udyam Assist Platform** through designated agencies, so they too count as MSMEs for priority sector lending. Banks should verify the Udyam certificate rather than rely on a borrower's statement.

2. Term loan appraisal for an MSME



The appraisal sequence for an MSME term loan.

- **Project cost:** land and building, plant and machinery (verified quotations), pre-operative expenses, contingency and margin for working capital.
- **Means of finance:** promoter's equity, term loan, subsidy (if any). Check the source of the promoter's money.
- **Viability:** realistic capacity utilisation (often 50-60% in year 1, rising later), raw material and power costs, selling price after discounts.

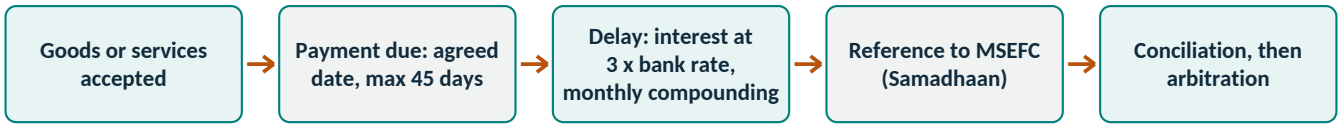
- **Repayment capacity:** Debt Service Coverage Ratio (DSCR) = (Profit after tax + depreciation + interest on term loan) / (instalments + interest on term loan). An average DSCR of about 1.5 is generally considered comfortable; banks set their own norms.
- **Management:** promoter's experience, licences and approvals, environmental clearances.

3. Working capital and receivables

MSE working capital limits up to ₹5 crore are assessed at a minimum of **20% of projected annual turnover** (Chapter B04). Larger limits use the operating cycle or cash budget methods. Many rural MSMEs supply larger companies or government departments that pay late; the enterprise then needs more working capital even when it is profitable. **TReDS** (Trade Receivables Discounting System) platforms let MSMEs sell invoices accepted by large buyers to financiers at competitive rates, without recourse to the MSME.

4. Protection against delayed payment

Under **Sections 15 to 24 of the MSMED Act, 2006**, a buyer must pay a micro or small enterprise supplier on the agreed date, and the agreed period cannot exceed **45 days** from the day of acceptance; where there is no agreement, payment is due within 15 days. On delay, the buyer must pay **compound interest with monthly rests at three times the bank rate** notified by RBI. Disputes go to the **Micro and Small Enterprises Facilitation Council (MSEFC)** of the state, which conciliates and then arbitrates. The **Samadhaan** portal lets suppliers file claims online. The Income-tax Act also disallows deduction of such dues if not paid in time.



Delayed payment protection applies to micro and small suppliers, not medium enterprises.

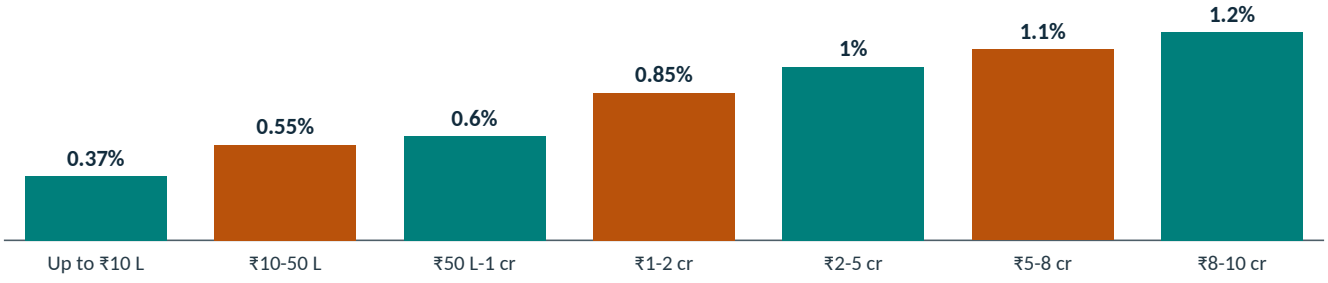
Memory trick

45 - 3 - MSEFC: pay within 45 days, else interest at 3 times the bank rate, disputes to the MSEFC.

5. Collateral-free lending and credit guarantee

RBI requires banks **not to take collateral security for loans up to ₹10 lakh** to micro and small enterprises; banks may extend this up to ₹25 lakh for units with a good track record. For larger loans, the **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**, set up in 2000 by the Ministry of MSME and SIDBI, guarantees collateral-free credit. From **1 April 2025** the guarantee ceiling was raised from ₹5 crore to **₹10 crore** per borrower, and the annual guarantee fee was cut, starting at 0.37% a year for loans up to ₹10 lakh. Guarantee cover is generally 75% to 85% of the amount in default, depending on loan size and borrower category.

CGTMSE annual guarantee fee by loan slab (% a year, standard rate from 1 April 2025)



Source: CGTMSE fee structure for guarantees approved or renewed on or after 1 April 2025.

6. Institutions supporting MSMEs

Institution	Role
SIDBI (1990)	Principal financial institution for MSMEs: refinance to banks and NBFCs, direct lending, fund of funds, promotion.

Institution	Role
CGTMSE (2000)	Credit guarantees for collateral-free loans to MSEs.
NSIC	Marketing support, raw material assistance, performance and credit ratings.
KVIC and state KVIBs	Village industries, khadi; PMEGP nodal agency.
District Industries Centres	Registration help, scheme processing at district level.
MSEFCs	Settle delayed payment disputes under the MSMED Act.

7. Stress, restructuring and revival

RBI's **Framework for Revival and Rehabilitation of MSMEs** requires banks to identify incipient stress early and act. When an MSME account shows stress, the bank or a committee at the bank level examines it and chooses one of three options: **rectification** (regularise with the borrower's own effort and possibly additional finance), **restructuring** (change the repayment terms if the unit is viable), or **recovery** (if not viable). Banks also follow RBI's directions on income recognition, asset classification and provisioning, including the SMA categories, for MSME accounts.

Temporary problem

- Delayed receivables from one buyer
- Seasonal fall in orders
- Short power or raw material disruption
- Response: rectify, additional WC, TReDS

Structural problem

- Product no longer competitive
- Persistent losses at full capacity
- Promoter dispute or diversion of funds
- Response: restructure only if viable, else recover

Worked case

Situation. The rice mill's investment is ₹8 crore and turnover ₹70 crore. It wants a ₹4 crore term loan for a sortex machine. Its large buyer pays after 90 days.

How to work it. Classification: investment ₹8 crore (within ₹25 crore) and turnover ₹70 crore (within ₹100 crore), so it is a **small** enterprise under the 2025 limits. Delayed payment: as a small enterprise it can claim interest at three times the bank rate on dues beyond 45 days and approach the MSEFC; it can also discount accepted invoices on TReDS. The ₹4 crore loan is above the ₹10 lakh mandatory collateral-free limit, but it can be covered under CGTMSE (ceiling ₹10 crore). Appraise the sortex machine on its incremental margin (better price for sorted rice, lower rejection) and the DSCR. Increase working capital to reflect the 90-day receivable cycle.

Key facts to remember

Fact	Detail
MSME classification from 1 April 2025	Micro ₹2.5 cr / ₹10 cr; small ₹25 cr / ₹100 cr; medium ₹125 cr / ₹500 cr (investment / turnover)
Udyam registration	From 1 July 2020; Udyam Assist Platform for informal micro units
Delayed payment	Max 45 days; interest 3 x bank rate, monthly compounding; MSEFC; Samadhaan portal
Collateral-free MSE loans	Mandatory up to ₹10 lakh; may extend to ₹25 lakh for good track record
CGTMSE	Set up 2000; ceiling ₹10 crore from 1 April 2025; fee from 0.37% a year
SIDBI	Established 1990; principal institution for MSME finance
Revival framework	Rectification, restructuring or recovery

Quick revision

Remember	In one line
Composite test	Investment and turnover both within the limit.
Micro (2025)	Investment up to ₹2.5 crore and turnover up to ₹10 crore.
DSCR	(PAT + depreciation + TL interest) / (instalments + TL interest).
MSMED delay rule	45 days; 3 x bank rate; MSEFC.
Collateral-free	No collateral up to ₹10 lakh for MSEs.
CGTMSE	Guarantee up to ₹10 crore from April 2025.
TReDS	Discount accepted invoices without recourse to the MSME.
Stress response	Rectification, restructuring, recovery.

Practice with explanations

01. From 1 April 2025, a micro enterprise has investment and turnover limits of:

A. ₹1 crore and ₹5 crore
B. ₹2.5 crore and ₹10 crore
C. ₹5 crore and ₹25 crore
D. ₹10 crore and ₹50 crore

Answer B. The 2025 revision set micro at ₹2.5 crore investment and ₹10 crore turnover.

02. A small enterprise under the 2025 criteria has turnover up to:

A. ₹50 crore
B. ₹75 crore
C. ₹100 crore
D. ₹250 crore

Answer C. Small: investment up to ₹25 crore and turnover up to ₹100 crore.

03. An enterprise with investment of ₹3 crore and turnover of ₹8 crore is classified as:

A. Micro
B. Small
C. Medium
D. Not an MSME

Answer B. Investment exceeds the ₹2.5 crore micro limit, so it moves to small even though turnover is within micro.

04. Under the MSMED Act, the maximum agreed payment period for an MSE supplier is:

A. 30 days
B. 45 days
C. 60 days
D. 90 days

Answer B. The agreed period cannot exceed 45 days from acceptance.

05. Interest on delayed payment to MSE suppliers is:

A. Bank rate
B. Twice the bank rate
C. Three times the bank rate, compounded monthly
D. Repo rate plus 2%

Answer C. Section 16: compound interest with monthly rests at three times the RBI bank rate.

06. Delayed payment disputes of MSEs are referred to:

A. NCLT
B. MSEFC
C. Lok Adalat
D. Banking Ombudsman

Answer B. The Micro and Small Enterprises Facilitation Council conciliates and arbitrates.

07. Banks must not take collateral for loans to MSEs up to:

A. ₹2 lakh
B. ₹5 lakh
C. ₹10 lakh
D. ₹25 lakh

Answer C. Mandatory collateral-free limit is ₹10 lakh; may be extended to ₹25 lakh for good units.

08. The CGTMSE guarantee ceiling from 1 April 2025 is:

A. ₹2 crore
B. ₹5 crore
C. ₹10 crore
D. ₹20 crore

Answer C. Raised from ₹5 crore to ₹10 crore per borrower.

09. The lowest CGTMSE annual guarantee fee (for loans up to ₹10 lakh) from April 2025 is:

A. 0.37%	**B.** 0.75%
C. 1.00%	**D.** 1.50%

Answer A. The fee starts at 0.37% a year for the smallest slab.

10. Udyam Registration started on:

A. 1 April 2006	**B.** 1 July 2020
C. 1 April 2025	**D.** 15 August 2015

Answer B. Udyam replaced Udyog Aadhaar from 1 July 2020.

11. TReDS helps MSMEs by:

A. Providing equity	**B.** Discounting receivables from large buyers without recourse
C. Giving export subsidy	**D.** Insuring stocks

Answer B. MSMEs sell accepted invoices to financiers on the platform.

12. DSCR measures:

A. Profitability per unit	**B.** Ability to service debt from cash generated
C. Liquidity of current assets	**D.** Return on equity

Answer B. It compares cash available for debt service with the debt service due.

13. SIDBI was established in:

A. 1982	**B.** 1990
C. 2000	**D.** 2006

Answer B. SIDBI was set up in 1990 as the principal financial institution for MSMEs.

14. Under the MSME revival framework, the three options are:

A. Rectification, restructuring, recovery	**B.** Rating, refinance, recovery
C. Review, reschedule, repay	**D.** Renew, revise, release

Answer A. Banks choose among rectification, restructuring and recovery.

15. Which enterprises are protected by the delayed payment provisions of the MSMED Act?

A. All MSMEs including medium	**B.** Micro and small enterprises
C. Only micro enterprises	**D.** Only exporters

Answer B. The provisions apply to micro and small enterprise suppliers.

Sources and dates used in this chapter

- Ministry of MSME notification S.O. 1364(E) dated 21 March 2025 (revised MSME criteria, effective 1 April 2025); notification of 26 June 2020.
- Micro, Small and Medium Enterprises Development Act, 2006, Sections 15-24.
- CGTMSE circulars on guarantee ceiling and annual guarantee fee, effective 1 April 2025.
- RBI Master Direction on lending to the MSME sector; Framework for Revival and Rehabilitation of MSMEs.

MODULE B: FINANCING RURAL DEVELOPMENT

B06 Rural Project Formulation and Appraisal

NPV > 0
accept: project earns more than the discount rate

IRR
rate at which NPV = 0

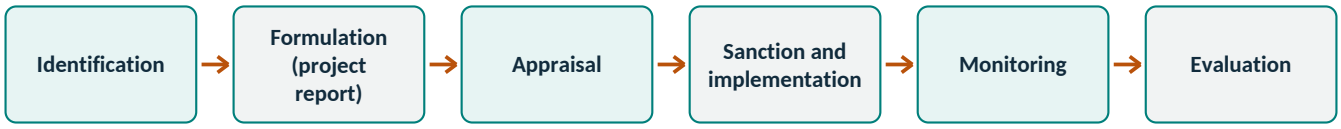
BCR > 1
discounted benefits exceed costs

DSCR ~1.5
comfortable average debt cover (typical norm)

Start with the decision. An FPO brings a project report for a ₹5 lakh solar-powered milk chilling unit. It projects net cash inflows of ₹1.4 to ₹1.6 lakh a year for five years. Is the project worth doing? Can it repay a bank loan? What if milk collection is 20% lower? This chapter gives you the tools: project formulation, the dimensions of appraisal, and the financial measures NPV, IRR, BCR, payback, break-even and DSCR.

A **project** is an investment with a defined cost, a life, and expected benefits. In rural banking, projects range from a single dairy unit or a minor irrigation scheme to an FPO's warehouse or a watershed. Good formulation sets out the idea, the market, the technology, the costs and the benefits clearly; good appraisal tests whether the project is technically sound, economically worthwhile, financially viable and bankable.

1. The project cycle



The project cycle. Lessons from evaluation feed back into identifying the next project.

In rural areas, project ideas come from NABARD's Potential Linked Credit Plans, state department schemes, FPOs and SHG federations, and from borrowers themselves. NABARD publishes **model bankable projects** and indicative **unit costs** for common activities (dairy, poultry, fisheries, minor irrigation, farm machinery) which help branches prepare and check project reports.

2. What a project report should contain

Section	Contents
Promoter and activity	Who the borrower is, experience, why this activity, location.
Market	Demand, buyers, price, competition, tie-ups (dairy society, mill, processor).
Technical	Technology, capacity, inputs, water, power, land, skills, approvals, environmental aspects.
Project cost	Land development, building, machinery, installation, pre-operative costs, contingency, margin money for working capital.
Means of finance	Own contribution, bank loan, subsidy, other grants.
Financial projections	Production, sales, costs, profit and cash flow for the life of the loan; repayment schedule.
Risks and mitigation	Weather, disease, price, market, technology; insurance and backup.

3. Dimensions of appraisal

Appraisal	Question it answers
Technical	Will it work? Is the technology proven, the site suitable, water and power available?
Economic	Is it worthwhile for society? Does it generate net benefits after valuing inputs and outputs at true economic cost?
Financial	Is it profitable for the borrower? Will cash inflows cover costs and the loan?
Commercial / market	Can the output be sold at the projected price and volume?

Appraisal	Question it answers
Managerial	Can the promoter or group run it?
Environmental and social	Does it harm water, soil or people? Is it inclusive?

Exam tip

Economic appraisal values the project from **society's** point of view (shadow prices, external costs and benefits); financial appraisal values it from the **owner's** point of view (market prices, taxes, subsidies). A canal can be economically worthwhile even if the user charges never repay its cost.

4. Time value of money and discounting

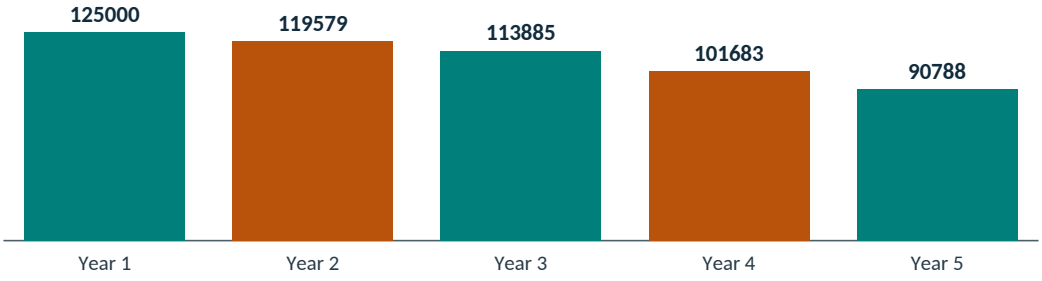
A rupee received later is worth less than a rupee today, because today's rupee can earn interest. **Discounting** converts future cash flows into present values: PV = Cash flow / $(1 + r)^t$, where r is the discount rate (usually the cost of capital or the lending rate) and t the year. The discounted measures below use this idea; undiscounted measures (payback, simple rate of return) do not.

5. Discounted measures: NPV, BCR and IRR

Year	0	1	2	3	4	5
Net cash flow (₹)	-5,00,000	1,40,000	1,50,000	1,60,000	1,60,000	1,60,000
Discount factor at 12%	1.000	0.893	0.797	0.712	0.636	0.567
Present value (₹)	-5,00,000	1,25,000	1,19,579	1,13,885	1,01,683	90,788

- **Net Present Value (NPV)** = sum of present values of all cash flows = 5,50,935 - 5,00,000 = **₹50,935**. NPV is positive, so the project earns more than 12%. Accept if NPV > 0.
- **Benefit-Cost Ratio (BCR)** = present value of benefits / present value of costs = 5,50,935 / 5,00,000 = **1.10**. Accept if BCR > 1.
- **Internal Rate of Return (IRR)** is the discount rate at which NPV becomes zero. For these cash flows it is about **15.9%**. Accept if IRR exceeds the cost of capital (12% here).

Present value of each year's inflow at 12% (₹)



Later inflows are worth less today. Their total (₹5,50,935) exceeds the ₹5 lakh investment, so NPV is positive.

Memory trick

NPV > 0, BCR > 1, IRR > cost of capital: three ways of saying the same "yes" for a single project.

6. Undiscounted measures: payback and break-even

Payback period is the time taken for cumulative cash inflows to recover the investment. Here cumulative inflows are ₹1.4 lakh, ₹2.9 lakh, ₹4.5 lakh, then ₹6.1 lakh in year 4. At the end of year 3, ₹50,000 remains; year 4 gives ₹1.6 lakh, so payback = 3 + 50,000/1,60,000 = **about 3.3 years**. Payback is simple and shows risk, but it ignores the time value of money and cash flows after payback.

Break-even point (BEP) is the level of output at which total revenue equals total cost, so there is neither profit nor loss. BEP (units) = Fixed costs / (Selling price per unit - Variable cost per unit). If the chilling unit has fixed costs of ₹1,20,000 a year, sells milk at ₹40 a litre and has variable cost of ₹24 a litre, BEP = 1,20,000 / 16 = **7,500 litres a year**. Expected volume well above BEP

gives a margin of safety.

7. Debt Service Coverage Ratio

Lenders care most about whether the borrower can pay instalments. **DSCR** = (Profit after tax + depreciation + interest on term loan) / (principal instalment + interest on term loan), computed year by year and on average. If annual cash accruals are ₹1.6 lakh and annual debt service is ₹1.05 lakh, DSCR = **1.52**. Banks commonly look for an average DSCR of around 1.5 and no year below about 1.2, but norms differ by bank and activity. A DSCR below 1 means cash cannot meet instalments.

8. Sensitivity analysis

Projections are uncertain, so test how results change when key assumptions change: volume, price, cost, delay in start-up, interest rate. A project that passes only at the most optimistic assumptions is risky. In rural projects the most sensitive variables are usually **yield or volume**, **output price** and **start-up delays** (monsoon, power connection, approvals).

Scenario	Present value of inflows (₹)	NPV at 12% (₹)	Decision
Base case	5,50,935	+50,935	Accept
All inflows 10% lower	4,95,842	-4,159	Marginally reject

A 10% fall in every year's inflow turns NPV slightly negative. The project is viable but has a thin margin of safety.

Worked case

Situation. The FPO's ₹5 lakh solar chilling unit, base NPV ₹50,935 at 12%, IRR about 15.9%, payback about 3.3 years. A 10% fall in inflows makes NPV slightly negative.

How to work it. The project is financially acceptable but sensitive to milk volume. Before sanction: confirm member commitments and the dairy's purchase agreement; check whether Agriculture Infrastructure Fund subvention (3%) or a state subsidy applies, which would raise NPV; keep the repayment schedule within the DSCR norm under the downside case; and insure the equipment. If volumes are uncertain, consider a smaller first phase.

Key facts to remember

Fact	Detail
NPV rule	Accept if NPV > 0
BCR rule	Accept if BCR > 1
IRR rule	Accept if IRR > cost of capital
Payback	Time to recover investment from cumulative inflows; ignores time value
BEP (units)	Fixed costs / (price - variable cost per unit)
DSCR	(PAT + depreciation + TL interest) / (TL instalment + TL interest); ~1.5 average is a common comfort level
Discount factor	1 / (1 + r)^t

Quick revision

Remember	In one line
Project cycle	Identify, formulate, appraise, implement, monitor, evaluate.
Economic vs financial	Society's view at shadow prices vs owner's view at market prices.
NPV	PV of inflows minus investment; accept if positive.
IRR	Discount rate at which NPV is zero.
BCR	PV benefits / PV costs; accept if above 1.
Payback	Years to recover the investment.
BEP	Fixed cost / contribution per unit.

Remember	In one line
Sensitivity	Test volume, price, cost and delays.

Practice with explanations

01. A project should be accepted when its NPV is:

A. Negative	**B.** Zero or positive
C. Equal to the investment	**D.** Less than the payback

Answer B. A positive NPV means the project earns more than the discount rate; zero means it just earns it.

02. IRR is the discount rate at which:

A. BCR = 2	**B.** NPV = 0
C. Payback = 1 year	**D.** DSCR = 1.5

Answer B. IRR equates the present value of inflows with the investment.

03. Present value of benefits ₹5,50,935 and present value of costs ₹5,00,000 give a BCR of:

A. 0.91	**B.** 1.00
C. 1.10	**D.** 1.51

Answer C. 5,50,935 / 5,00,000 = 1.10.

04. Investment ₹5 lakh; inflows ₹1.4, 1.5, 1.6 and 1.6 lakh in years 1-4. Payback period is about:

A. 2.5 years	**B.** 3.3 years
C. 4.0 years	**D.** 4.5 years

Answer B. After 3 years ₹4.5 lakh is recovered; the remaining ₹0.5 lakh takes 0.31 of year 4.

05. Fixed costs ₹1,20,000, price ₹40 per litre, variable cost ₹24 per litre. Break-even volume is:

A. 3,000 litres	**B.** 5,000 litres
C. 7,500 litres	**D.** 12,000 litres

Answer C. 1,20,000 / (40 - 24) = 7,500 litres.

06. Which measure ignores the time value of money?

A. NPV	**B.** IRR
C. BCR	**D.** Payback period

Answer D. Payback simply adds undiscounted inflows.

07. Cash accruals ₹1.6 lakh and debt service ₹1.05 lakh give a DSCR of about:

A. 0.66	**B.** 1.05
C. 1.52	**D.** 1.60

Answer C. 1.6 / 1.05 = 1.52.

08. Economic appraisal differs from financial appraisal because it:

A. Uses market prices only	**B.** Values costs and benefits from society's point of view
C. Ignores costs	**D.** Considers only the bank

Answer B. It uses shadow prices and includes external costs and benefits.

09. The discount factor for year 2 at 12% is about:

A. 0.893	**B.** 0.797
C. 0.712	**D.** 0.636

Answer B. 1 / 1.12^2 = 0.797.

10. NABARD helps project formulation by publishing:

A. Interest rates	**B.** Model bankable projects and unit costs
C. Crop insurance premiums	**D.** Land records

Answer B. Model projects and indicative unit costs guide branches and borrowers.

11. In rural projects, the most sensitive variables are usually:

A. Office rent	**B.** Yield or volume, output price and start-up delays
C. Stationery costs	**D.** Audit fees

Answer B. These drive income and timing of cash flows.

12. If a 10% fall in inflows makes NPV negative, the project is:

A. Very robust	**B.** Viable but with a thin margin of safety
C. Not viable at all	**D.** Exempt from appraisal

Answer B. It passes in the base case but is sensitive to volumes.

13. A DSCR below 1 means:

A. The project is highly profitable	**B.** Cash generated is not enough to meet debt service
C. The loan is overdue	**D.** The project has no debt

Answer B. Debt service exceeds available cash.

14. Which appraisal checks water, power and technology?

A. Financial	**B.** Technical
C. Managerial	**D.** Commercial

Answer B. Technical appraisal asks whether the project will work physically.

15. The last stage of the project cycle is:

A. Identification	**B.** Appraisal
C. Implementation	**D.** Evaluation

Answer D. Evaluation assesses results and feeds lessons into new projects.

Sources and dates used in this chapter

- NABARD: model bank projects and indicative unit costs (state-wise).
- Standard project appraisal methods (NPV, IRR, BCR, payback, break-even, DSCR); worked figures computed for this book.

MODULE C: PRIORITY SECTOR FINANCING AND GOVERNMENT INITIATIVES

C01 Priority Sector Lending

40%
PSL target for commercial banks (of ANBC or CEOBE)

18%
agriculture sub-target, incl. 10% for small and

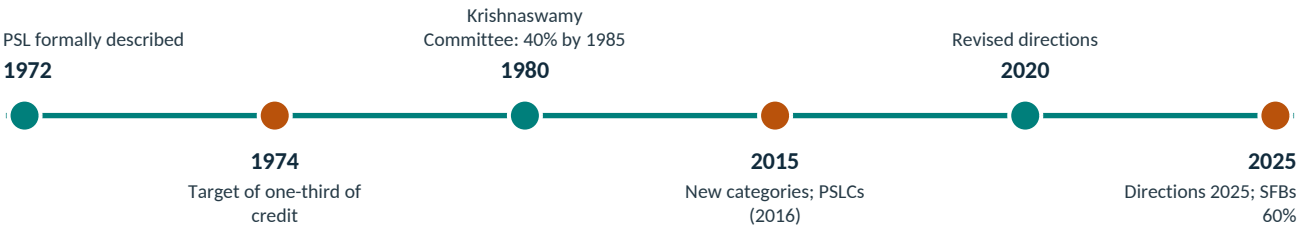
75%
PSL target for RRBs

4
types of PSL certificates

Start with the decision. At quarter-end your regional office says the bank is short of its small and marginal farmer sub-target. A branch has classified every home loan in a large village as priority sector, a gold loan for a wedding has been tagged as agriculture, and the treasury is thinking of buying PSL certificates. Which of these is right? This chapter explains the categories, targets and rules of priority sector lending.

Priority sector lending (PSL) requires banks to direct a minimum share of their credit to sectors that are important for development but may not get enough credit on commercial terms alone: agriculture, micro and small enterprises, weaker sections, education, affordable housing, social infrastructure and renewable energy. The current rules are the **RBI (Priority Sector Lending - Targets and Classification) Directions, 2025**, effective 1 April 2025 and amended since. Targets are measured against **Adjusted Net Bank Credit (ANBC)** or the credit equivalent of off-balance sheet exposures (CEOBE), whichever is higher.

1. Evolution



Priority sector policy since nationalisation.

2. The eight categories

Category	What it covers (main points)
Agriculture	Farm credit (crop and term loans to farmers, including allied activities), agriculture infrastructure, ancillary activities such as loans to FPOs, PACS, custom hiring centres.
MSME	All bank loans to MSMEs as defined under the MSMED Act (including KVI units). Loans to startups conforming to the MSME definition, up to ₹50 crore.
Export credit	Export credit up to specified limits; counted for PSL subject to caps for domestic banks.
Education	Loans to individuals for education, including vocational courses, up to ₹25 lakh.
Housing	Home loans to individuals up to ₹50 lakh (centres with population 50 lakh+), ₹45 lakh (10-50 lakh) and ₹35 lakh (below 10 lakh), subject to house cost ceilings; loans for repairs within limits.
Social infrastructure	Schools, drinking water, sanitation up to ₹8 crore per borrower; healthcare facilities in Tier II-VI centres up to ₹12 crore.
Renewable energy	Up to ₹35 crore for RE-based power generators and public utilities; up to ₹10 lakh per borrower for individual households.
Others	Loans to individuals, SHGs and JLGs within limits; loans to distressed persons to repay non-institutional lenders up to ₹1 lakh; loans to state-sponsored SC/ST/minority corporations for on-lending.

Check before use. Loan limits and house cost ceilings in the PSL Directions change from time to time. Check the latest amended Directions before classifying an account.

3. Targets by type of bank

Category	Domestic SCBs and foreign banks (20+ branches)	RRBs	SFBs	UCBs
Total priority sector	40%	75%	60% (from 2025-26; was 75%)	60%
Agriculture	18% (14% to non-corporate farmers, of which 10% to small and marginal farmers)	18% (same sub-targets)	18%	Not applicable
Micro enterprises	7.5%	7.5%	7.5%	7.5%
Weaker sections	12%	15%	12%	12%

Foreign banks with fewer than 20 branches have a 40% total target, of which up to 32% can be export credit and at least 8% must be other priority sector categories. RRBs may count lending to medium enterprises, social infrastructure and renewable energy only up to 15% of ANBC. All targets are computed on ANBC or CEOBE as at the corresponding date of the previous year, and achievement is measured as the average of quarterly figures.

Sub-targets for domestic commercial banks (% of ANBC)



Sub-targets sit inside the total 40% target.

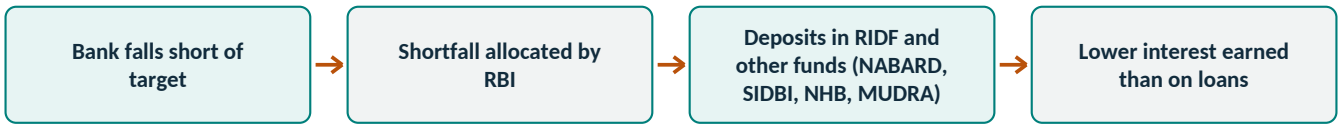
Memory trick

Commercial banks: **40 - 18 - 10 - 7.5 - 12**. Total, agriculture, small and marginal farmers, micro enterprises, weaker sections. RRBs: **75** total and **15** weaker sections.

4. Weaker sections and small and marginal farmers

Small farmers hold 1 to 2 hectares and **marginal farmers** up to 1 hectare; landless agricultural labourers, tenant farmers, oral lessees and sharecroppers with holdings within these limits also count. **Weaker sections** include small and marginal farmers; artisans, village and cottage industries with individual credit limits up to ₹2 lakh; beneficiaries of government-sponsored schemes (such as DAY-NRLM, DAY-NULM, SRMS); SC and ST; DRI beneficiaries; SHGs and JLGs; distressed farmers indebted to non-institutional lenders; individual women beneficiaries up to ₹2 lakh; persons with disabilities; minority communities as notified; and, from 2025, transgender persons.

5. Shortfall and PSL certificates



Consequence of shortfall: deposits at below-market rates, which costs the bank.

Shortfalls in the total target or sub-targets are allocated by RBI for contribution to the **RIDF** and other funds with NABARD, NHB, SIDBI or MUDRA, at interest rates set by RBI, which are lower than loan yields. Banks can also manage their achievement through **Priority Sector Lending Certificates (PSLCs)**, introduced in 2016 and traded on RBI's **e-Kuber** platform. A bank with surplus PSL achievement sells certificates; a bank with a shortfall buys them.

PSLC type	Counts towards
PSLC Agriculture	Total agriculture target

PSLC type	Counts towards
PSLC Small and Marginal Farmers	SMF sub-target (and agriculture)
PSLC Micro Enterprises	Micro enterprises sub-target
PSLC General	Overall priority sector target

Exam tip

A PSLC transfers **only the achievement**, not the loan or its credit risk. The underlying loan stays in the books of the originating bank. All PSLCs expire on 31 March.

6. Classification discipline

- **End use decides.** A gold loan used for a wedding is not agriculture, even if the borrower is a farmer. A home loan above the limit is not PSL, even in a village.
- **Keep the evidence.** Borrower category (SMF, SC/ST, woman), land records or tenancy proof, end-use verification and the eligible amount must be on file.
- **No double counting.** A loan is reported under one category; sub-target eligibility is a separate tag.
- **Bank's own employees** cannot be PSL beneficiaries for housing and similar loans.
- **Interest rates** on PSL loans follow the bank's general directions; there is no special concessional rate except under government schemes.

Worked case

Situation. A branch classified all home loans in a village of 9,000 people as PSL. One loan is ₹42 lakh for a house costing ₹55 lakh.

How to work it. For centres with population below 10 lakh the PSL housing loan limit is ₹35 lakh (subject to the house cost ceiling). The ₹42 lakh loan exceeds the limit and is not priority sector, whatever the location. Reclassify it, check the others against the loan and cost limits, and record the reason. Geography alone never decides PSL status.

Key facts to remember

Fact	Detail
PSL Directions	RBI (PSL - Targets and Classification) Directions, 2025, effective 1 April 2025
Commercial banks	Total 40%; agriculture 18% (NCF 14%, SMF 10%); micro 7.5%; weaker sections 12%
RRBs	Total 75%; weaker sections 15%
SFBs	Total 60% from 2025-26 (reduced from 75%, June 2025)
UCBs	Total 60%
Education	Up to ₹25 lakh per individual
Renewable energy	₹35 crore per borrower; ₹10 lakh for households
Social infrastructure	₹8 crore; healthcare in Tier II-VI ₹12 crore
PSLCs	Since 2016; four types; traded on e-Kuber; expire 31 March

Quick revision

Remember	In one line
ANBC	Base for PSL targets (or CEOBE, whichever is higher).
SCB targets	40 total, 18 agri, 10 SMF, 7.5 micro, 12 weaker.
RRB / SFB / UCB	75% / 60% / 60%.
Small farmer	1-2 ha; marginal up to 1 ha.
Shortfall	Deposits in RIDF and other funds at low rates.

Remember	In one line
PSLC	Trades achievement only; four types; e-Kuber.
End use	Purpose, not location or security, decides PSL.

Practice with explanations

01. The overall PSL target for domestic commercial banks is:

A. 18% of ANBC	**B.** 32% of ANBC
C. 40% of ANBC or CEOBE, whichever is higher	**D.** 75% of ANBC

Answer C. 40% of ANBC or CEOBE, whichever is higher.

02. The sub-target for small and marginal farmers for commercial banks is:

A. 8%	**B.** 10%
C. 12%	**D.** 14%

Answer B. 10% of ANBC, within the 14% for non-corporate farmers and 18% for agriculture.

03. The PSL target for small finance banks from 2025-26 is:

A. 40%	**B.** 60%
C. 75%	**D.** 80%

Answer B. RBI reduced it from 75% to 60% in June 2025.

04. The weaker sections target for RRBs is:

A. 10%	**B.** 12%
C. 15%	**D.** 18%

Answer C. RRBs have 15%; commercial banks and SFBs 12%.

05. Education loans qualify for PSL up to:

A. ₹10 lakh	**B.** ₹20 lakh
C. ₹25 lakh	**D.** ₹50 lakh

Answer C. Up to ₹25 lakh per individual under the 2025 Directions.

06. Renewable energy loans to individual households qualify up to:

A. ₹5 lakh	**B.** ₹10 lakh
C. ₹25 lakh	**D.** ₹35 lakh

Answer B. ₹10 lakh per borrower for households; ₹35 crore for RE-based power generators.

07. PSLCs are traded on:

A. NSE	**B.** e-Kuber
C. NDS-OM	**D.** TReDS

Answer B. They are traded on RBI's e-Kuber platform.

08. Which is NOT a type of PSLC?

A. Agriculture	**B.** Small and Marginal Farmers
C. Housing	**D.** General

Answer C. The four types are Agriculture, SMF, Micro Enterprises and General.

09. When a bank buys a PSLC, it acquires:

A. The underlying loans	**B.** Only the PSL achievement
C. The credit risk of the loans	**D.** A deposit with NABARD

Answer B. Only achievement is transferred; loans and risk stay with the seller.

10. A marginal farmer holds land of:

A. Up to 1 hectare	**B.** 1 to 2 hectares
C. 2 to 4 hectares	**D.** Up to 5 acres

Answer A. Marginal: up to 1 ha; small: 1 to 2 ha.

11. Shortfall in PSL targets results in:

A. A penalty in cash	**B.** Allocation for deposits in RIDF and other funds
C. Cancellation of licence	**D.** No consequence

Answer B. Shortfall amounts are deposited in funds such as RIDF at interest rates set by RBI.

12. The Krishnaswamy Committee (1980) recommended a PSL target of:

A. 33.3%	**B.** 40%
C. 50%	**D.** 60%

Answer B. It recommended 40% of credit by 1985.

13. Under the 2025 Directions, which group was added to weaker sections?

A. Exporters	**B.** Transgender persons
C. Large farmers	**D.** Corporate borrowers

Answer B. Transgender persons were added to the list of weaker sections.

14. A ₹42 lakh home loan in a centre with population below 10 lakh is:

A. PSL because it is rural	**B.** Not PSL because it exceeds ₹35 lakh
C. PSL under social infrastructure	**D.** PSL if the borrower is a farmer

Answer B. The housing PSL limit for such centres is ₹35 lakh.

15. Foreign banks with fewer than 20 branches can meet up to what part of the 40% target through export credit?

A. 8%	**B.** 18%
C. 32%	**D.** 40%

Answer C. Up to 32% export credit and at least 8% other PSL categories.

Sources and dates used in this chapter

- RBI Master Directions - Priority Sector Lending (Targets and Classification) Directions, 2025, dated 24 March 2025, as amended (including amendments of January 2026).
- RBI circular RBI/2025-26/61 dated 20 June 2025 on PSL target for small finance banks.
- RBI circulars on Priority Sector Lending Certificates (2016).

MODULE C: PRIORITY SECTOR FINANCING AND GOVERNMENT INITIATIVES

C02 Poverty Alleviation and Welfare Programmes



₹436
PMJJBY annual premium for ₹2 lakh life cover

₹20
PMSBY annual premium for ₹2 lakh accident cover

₹5 lakh
PM-JAY health cover per family per year

125 days
wage employment under VB-G RAM G

Start with the decision. A woman SHG member comes to your branch with three questions: can her husband join the ₹436 life insurance scheme at 52, why her old-age pension stopped, and whether her group can get a bigger loan now that it has repaid two cycles. Each question touches a different welfare programme in which the bank has a role.

Poverty alleviation in India works through four channels: **employment** (wage and self-employment), **food and nutrition security**, **social security** (insurance and pensions) and **access to basic services** (housing, health, water, sanitation). Banks are the delivery backbone: they hold the accounts into which benefits are paid, enrol people in insurance and pension schemes, and lend to SHGs and beneficiaries of government-sponsored schemes.

1. Understanding poverty for programme design

Chapter A03 explained how poverty is measured: by consumption (Tendulkar 2011-12: 25.7% rural) and by deprivations (NITI Aayog MPI: rural 32.59% to 19.28% between 2015-16 and 2019-21). Programmes target different barriers: lack of work, lack of assets, lack of skills, risk from illness or death, and lack of access to services. A household may need several of these at once.

2. Employment and livelihood programmes

Programme	What it does	Bank's role
VB-G RAM G (from 1 July 2026; replaced MGNREGA)	125 days of wage employment per rural household a year	Wage payments to beneficiaries' accounts
DAY-NRLM	SHGs, federations, livelihoods, interest subvention on SHG loans	Savings accounts, SHG-bank linkage loans
DDU-GKY and RSETIs	Skill training for jobs and self-employment	RSETIs run by banks; credit to trainees
PMEGP, PM Vishwakarma, Mudra	Enterprise creation (Chapter B04)	Loans with subsidy or subvention
DAY-NULM / urban livelihoods	Urban poor SHGs and self-employment	Accounts and credit in towns

3. Food and nutrition security

The **National Food Security Act, 2013** entitles up to 75% of the rural and 50% of the urban population to subsidised foodgrains through the Targeted Public Distribution System. Under the **Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY)**, foodgrains are provided free to about 81 crore beneficiaries; it was extended for five years from 1 January 2024. Mid-day meals (PM POSHAN) and anganwadi services under the ICDS address child nutrition.

4. Social security: Jan Suraksha schemes

Scheme (launch)	Age	Premium / contribution	Benefit
PMJJBY - life (2015)	18-50 (cover to 55)	₹436 a year, auto-debit	₹2 lakh on death from any cause
PMSBY - accident (2015)	18-70	₹20 a year, auto-debit	₹2 lakh on accidental death or total disability; ₹1 lakh partial disability
Atal Pension Yojana (2015)	18-40 to join	Monthly contribution by age and chosen pension	Guaranteed pension of ₹1,000 to ₹5,000 a month from age 60

Scheme (launch)	Age	Premium / contribution	Benefit
PMJDY accident cover	Account holders	Nil	₹2 lakh accidental insurance with RuPay card (accounts opened after 28 August 2018)

Memory trick

Jan Suraksha prices: **436 for life, 20 for accident**, both give **₹2 lakh**. APY pension **1,000 to 5,000** from **60**.

For health, **Ayushman Bharat - PM Jan Arogya Yojana (PM-JAY)** gives cashless hospital cover of **₹5 lakh per family per year** to eligible poor families; since October 2024 all senior citizens aged 70 and above are covered regardless of income. The **National Social Assistance Programme (NSAP)** pays old-age, widow and disability pensions to BPL beneficiaries, generally by direct benefit transfer into bank or post office accounts.

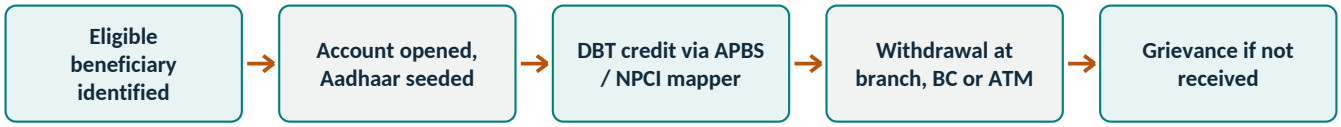
At the branch

When a pension or benefit "stops", check first: is the account active, is Aadhaar seeded and mapped on the NPCI mapper, has e-KYC expired, and has the beneficiary list been revised? Many failures are record mismatches, not policy decisions.

5. Basic services

- **Housing:** PMAY-G assistance of ₹1.20 lakh (plains) or ₹1.30 lakh (NE and hill states) per house; 2 crore more houses approved for 2024-25 to 2028-29 (Chapter C03).
- **Water and sanitation:** Jal Jeevan Mission and Swachh Bharat Mission (Grameen) (Chapter A04).
- **Clean cooking fuel:** PM Ujjwala Yojana LPG connections for poor households.
- **Energy and connectivity:** household electrification and BharatNet.

6. Delivery through bank accounts



The benefit chain. A failure at any link means the benefit does not reach the person.

Banks contribute at each link: opening accounts (PMJDY), seeding Aadhaar and mobile numbers, keeping accounts active, providing cash-out through BCs, and resolving complaints. Successful credit to an account is only one stage; the outcome is the beneficiary actually receiving and using the money.

7. Measuring results

Outputs	Outcomes
• Accounts opened	• Accounts used for savings and payments
• Insurance enrolments	• Claims paid to families when needed
• Benefits credited	• Benefits received in cash or used
• Loans disbursed to SHGs	• Higher, more stable household income

Worked case

Situation. An SHG member asks whether her 52-year-old husband can join PMJJBY, why her old-age pension stopped, and whether her group can get a larger loan.

How to work it. PMJJBY: entry is up to age 50, so he cannot join now; suggest PMSBY (up to 70) for accident cover. Pension: check account status, Aadhaar mapping and e-KYC, then the NSAP beneficiary list with the block office. Group loan: under SHG-bank linkage, repeat loans can be larger based on the group's savings, grading and repayment record (Chapter D03).

Key facts to remember

Fact	Detail
PMJJBY	Age 18-50 to join; ₹436 a year; ₹2 lakh life cover
PMSBY	Age 18-70; ₹20 a year; ₹2 lakh accident cover
APY	Join at 18-40; pension ₹1,000-5,000 a month from 60
PM-JAY	₹5 lakh per family per year; all aged 70+ covered from October 2024
NFSA	2013; up to 75% rural and 50% urban population
PMGKAY	Free foodgrains to about 81 crore people; extended five years from 1 January 2024
VB-G RAM G	125 days of wage employment from 1 July 2026

Quick revision

Remember	In one line
Four channels	Employment, food, social security, basic services.
PMJJBY	₹436, life, ₹2 lakh, join by 50.
PMSBY	₹20, accident, ₹2 lakh, up to 70.
APY	Join 18-40, pension from 60.
PM-JAY	₹5 lakh per family; 70+ all covered.
NFSA	75% rural, 50% urban coverage.
Benefit failure	Check account, Aadhaar mapping, e-KYC, beneficiary list.

Practice with explanations

01. The annual premium for PMJJBY is:

A. ₹12 **B.** ₹20
C. ₹330 **D.** ₹436

Answer D. PMJJBY premium is ₹436 a year for ₹2 lakh life cover.

02. PMSBY provides accidental death cover of:

A. ₹1 lakh **B.** ₹2 lakh
C. ₹5 lakh **D.** ₹10 lakh

Answer B. ₹2 lakh for accidental death or total disability at ₹20 a year.

03. The maximum entry age for PMJJBY is:

A. 40 **B.** 50
C. 60 **D.** 70

Answer B. Entry from 18 to 50; cover can continue to 55.

04. Atal Pension Yojana can be joined between ages:

A. 18-40 **B.** 18-50
C. 21-60 **D.** 25-55

Answer A. APY is open to those aged 18 to 40.

05. PM-JAY provides health cover per family per year of:

A. ₹1 lakh **B.** ₹2 lakh
C. ₹5 lakh **D.** ₹10 lakh

Answer C. ₹5 lakh per family per year for secondary and tertiary hospital care.

06. From October 2024, PM-JAY covers:

A. All persons above 60 **B.** All senior citizens aged 70 and above, regardless of income
C. Only BPL seniors **D.** Only government pensioners

Answer B. The scheme was extended to all citizens aged 70+.

07. The National Food Security Act covers up to what share of the rural population?

A. 50%	**B.** 67%
C. 75%	**D.** 90%

Answer C. Up to 75% of rural and 50% of urban population.

08. PMGKAY provides free foodgrains to about:

A. 50 crore people	**B.** 81 crore people
C. 100 crore people	**D.** 120 crore people

Answer B. About 81 crore beneficiaries under NFSA.

09. Old-age, widow and disability pensions for BPL households are paid under:

A. APY	**B.** NSAP
C. PMJDY	**D.** NPS

Answer B. The National Social Assistance Programme.

10. PMJDY accident cover for accounts opened after 28 August 2018 is:

A. ₹1 lakh	**B.** ₹2 lakh
C. ₹30,000	**D.** ₹5 lakh

Answer B. Accident cover was raised to ₹2 lakh for accounts opened after that date.

11. A 52-year-old wants government life cover at low premium. The suitable option is:

A. PMJJBY	**B.** PMSBY for accident cover
C. APY	**D.** No scheme

Answer B. He is above PMJJBY's entry age; PMSBY (up to 70) gives accident cover.

12. A DBT pension stops. What should the bank check first?

A. The customer's caste	**B.** Account status, Aadhaar mapping and e-KYC
C. Loan outstanding	**D.** Branch timings

Answer B. Most failures arise from inactive accounts or broken Aadhaar mapping.

13. Which programme replaced MGNREGA from 1 July 2026?

A. DAY-NRLM	**B.** VB-G RAM G
C. PMEGP	**D.** DDU-GKY

Answer B. The VB-G RAM G Act, 2025.

14. Which is an outcome rather than an output?

A. Accounts opened	**B.** Insurance enrolments
C. Families receiving claims when a member dies	**D.** Camps held

Answer C. Outcomes are actual changes for people.

15. The Jan Suraksha schemes were launched in:

A. 2014	**B.** 2015
C. 2016	**D.** 2019

Answer B. PMJJBY, PMSBY and APY were launched in May 2015.

Sources and dates used in this chapter

- Department of Financial Services: PMJJBY, PMSBY and APY scheme rules (premiums revised June 2022); PMJDY progress (August 2026).
- National Health Authority: PM-JAY; Cabinet decision on coverage of senior citizens 70+ (2024).
- National Food Security Act, 2013; Cabinet decision on PMGKAY extension (November 2023).
- Ministry of Rural Development: NSAP, DAY-NRLM, VB-G RAM G.

MODULE C: PRIORITY SECTOR FINANCING AND GOVERNMENT INITIATIVES

C03 Rural Housing and Education Loans

₹1.20 lakh
PMAY-G assistance per house (plains)

2 crore
more rural houses approved, 2024-25 to

₹25 lakh
PSL limit for education loans

3%
PM-Vidyalaxmi interest subvention (family income

Start with the decision. A family has been sanctioned a PMAY-G house and wants a ₹3 lakh top-up loan to add a room. In the same village, a farmer's daughter has got a seat in an engineering college and needs ₹6 lakh. Can you lend in both cases? On what terms? Which government support applies, and how does it change the repayment burden?

Housing and education are two of the largest investments a rural family makes. Both have long horizons, both are supported by government schemes, and both count as priority sector lending within limits. The banker's job is to combine scheme benefits with a sound loan: the right amount, disbursed in stages, with repayment that the family can actually meet.

1. Rural housing need

Many rural households live in kutcha or dilapidated houses, or share overcrowded homes. A pucca house improves health, safety and dignity, and can be collateral for future borrowing. Rural housing finance faces specific problems: unclear land titles, houses on family or village land, irregular incomes, and construction in phases as money becomes available.

2. Pradhan Mantri Awaas Yojana - Gramin (PMAY-G)

PMAY-G, launched on 1 April 2016, gives financial assistance to houseless households and those in kutcha or dilapidated houses, identified through the **SECC 2011** Permanent Wait List and Awaas+ surveys and verified by the **Gram Sabha**. The first phase targeted 2.95 crore houses. In 2024 the Cabinet approved **2 crore more houses** for **2024-25 to 2028-29** with a total outlay of ₹3,06,137 crore.

Feature	PMAY-G
Unit assistance	₹1.20 lakh in plains; ₹1.30 lakh in NE states, hill states (HP, Uttarakhand) and UTs of J&K; and Ladakh
Minimum house size	25 sq m, including a dedicated area for hygienic cooking
Convergence	Unskilled wage days through the rural employment scheme; toilet through SBM-G; water, LPG and electricity through other schemes
Payment	Instalments by DBT to the beneficiary's account, linked to geo-tagged construction stages
Funding	60:40 Centre and states; 90:10 for NE and Himalayan states; 100% Centre for UTs
Bank role	Accounts for DBT; optional loan for additional cost (top-up)



PMAY-G instalments follow construction stages, which is also the right way to disburse a top-up loan.

3. Bank housing loans in rural areas

Banks lend for construction, purchase, extension and repair. Appraisal covers title or occupancy documents, an estimate of cost, the family's own contribution, income and repayment capacity, and stage-wise disbursement against progress. Priority sector treatment applies to home loans up to ₹35 lakh in centres with population below 10 lakh (higher in bigger centres), subject to cost ceilings, and to repair loans within limits (Chapter C01). Where formal title is weak, banks can rely on documents accepted under their policy, such as panchayat records or **SVAMITVA property cards**, which map rural inhabited land with drones and give owners a record of rights.

Worked case

Situation. A PMAY-G family wants a ₹3 lakh top-up loan to add a room. The husband earns about ₹12,000 a month from wage work and a small dairy; monthly household spending is about ₹9,000.

How to work it. At 9% for 10 years the EMI on ₹3 lakh is about ₹3,800, which exceeds the monthly surplus of about ₹3,000. Offer a smaller loan (around ₹2 lakh, EMI about ₹2,530) or a longer tenure if policy allows; disburse after the PMAY-G structure reaches plinth level; insure the house; and check whether the loan qualifies as PSL. Do not let the bank loan delay completion of the subsidised house: sequence the extra room after the main structure.

4. Education loans

Banks follow the **IBA Model Education Loan Scheme**, adapted by each bank. Key features: loans for studies in India and abroad; coverage of tuition, examination, library and hostel fees, books and equipment; a **moratorium** of course period plus one year; repayment up to 15 years after the moratorium; and, generally, no collateral up to ₹7.5 lakh (with parents or guardian as co-borrower). Education loans up to **₹25 lakh** qualify as priority sector.

Support	Who qualifies	Benefit
CSIS (PM-USP)	Family income up to ₹4.5 lakh; technical or professional courses in approved institutions	Full interest subsidy during the moratorium on loans up to ₹10 lakh
PM-Vidyalaxmi (Nov 2024)	Students admitted to Quality Higher Education Institutions (by NIRF ranking); family income up to ₹8 lakh for subvention	3% interest subvention during moratorium on loans up to ₹10 lakh (up to 1 lakh students a year); collateral-free and guarantor-free loans
Credit guarantee (CGFSEL)	Loans up to ₹7.5 lakh, no income limit	75% guarantee of outstanding default to the bank

Exam tip

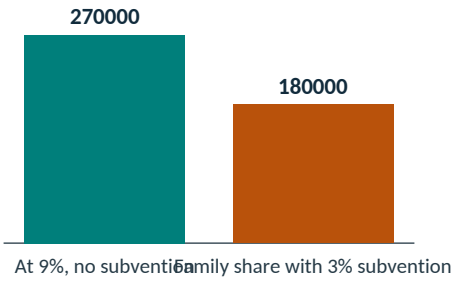
Moratorium = **course period + 1 year**. Repayment up to **15 years** after that. CSIS: income up to **₹4.5 lakh**, full subsidy. PM-Vidyalaxmi: income up to **₹8 lakh**, 3% subvention, loans up to ₹10 lakh.

Worked case

Situation. The farmer's daughter needs ₹6 lakh for a four-year engineering course at an institution listed under PM-Vidyalaxmi. Family income is ₹6 lakh a year. Assume the full amount at the start and 9% interest.

How to work it. The moratorium is 5 years (4-year course + 1). Interest at 9% over 5 years on ₹6 lakh is ₹2.7 lakh. With 3% PM-Vidyalaxmi subvention the family bears 6%, i.e. ₹1.8 lakh. If this is added to principal, the EMI over 10 years at 9% on ₹7.8 lakh is about ₹9,880. The loan is collateral-free and eligible for the 75% credit guarantee (up to ₹7.5 lakh). In practice disbursement is semester-wise, so actual interest is lower. Encourage the family to pay interest during the course if they can.

Interest during a 5-year moratorium on ₹6 lakh (₹)



Illustrative; assumes the full amount is disbursed at the start.

5. Separating scheme, loan and classification

Government support

- Assistance (PMAY-G) or interest subsidy (CSIS, PM-Vidyalaxmi)
- Eligibility set by the scheme
- Paid by Government by DBT or to the bank

Bank loan

- Appraised on repayment capacity
- Disbursed in stages
- PSL classification checked separately against limits

Key facts to remember

Fact	Detail
PMAY-G	Launched 1 April 2016; 2 crore more houses 2024-25 to 2028-29; outlay ₹3,06,137 crore
PMAY-G assistance	₹1.20 lakh plains; ₹1.30 lakh NE and hill states
Minimum house size	25 sq m
Education loan moratorium	Course period + 1 year; repayment up to 15 years
CSIS	Family income up to ₹4.5 lakh; full interest subsidy in moratorium; loans up to ₹10 lakh
PM-Vidyalaxmi	Approved November 2024; 3% subvention for income up to ₹8 lakh; 75% guarantee up to ₹7.5 lakh
PSL limits	Education ₹25 lakh; housing ₹35/45/50 lakh by centre population

Quick revision

Remember	In one line
PMAY-G selection	SECC 2011 / Awaas+ lists verified by the Gram Sabha.
PMAY-G amount	₹1.20 lakh plains, ₹1.30 lakh hills and NE.
Stage-wise	Disburse against geo-tagged construction stages.
SVAMITVA	Drone-mapped property cards for rural homes.
Moratorium	Course + 1 year.
CSIS vs PM-Vidyalaxmi	₹4.5 lakh full subsidy vs ₹8 lakh 3% subvention.
Guarantee	75% for education loans up to ₹7.5 lakh.

Practice with explanations

01. PMAY-G unit assistance in plain areas is:

A. ₹1.00 lakh
B. ₹1.20 lakh
C. ₹1.30 lakh
D. ₹2.50 lakh

Answer B. ₹1.20 lakh in plains; ₹1.30 lakh in NE and hill states.

02. Under the extended PMAY-G, how many more houses were approved for 2024-25 to 2028-29?

A. 1 crore
B. 2 crore
C. 2.95 crore
D. 4.95 crore

Answer B. 2 crore more houses, taking the cumulative target to 4.95 crore.

03. The minimum size of a PMAY-G house is:

A. 20 sq m
B. 25 sq m
C. 30 sq m
D. 40 sq m

Answer B. 25 sq m, including an area for hygienic cooking.

04. PMAY-G beneficiaries are finally verified by:

A. The bank
B. The Gram Sabha
C. The District Collector
D. NABARD

Answer B. The Gram Sabha verifies the list drawn from SECC 2011 and Awaas+.

05. The moratorium on an education loan is generally:

A. Course period only	**B.** Course period + 6 months
C. Course period + 1 year	**D.** 2 years

Answer C. Course period plus one year under the IBA model scheme.

06. Under CSIS, full interest subsidy during moratorium is available for family income up to:

A. ₹2.5 lakh	**B.** ₹4.5 lakh
C. ₹6 lakh	**D.** ₹8 lakh

Answer B. CSIS covers families with income up to ₹4.5 lakh.

07. PM-Vidyalaxmi gives interest subvention of:

A. 1%	**B.** 2%
C. 3%	**D.** 4%

Answer C. 3% during moratorium on loans up to ₹10 lakh for family income up to ₹8 lakh.

08. Credit guarantee under the education loan scheme covers what share of default for loans up to ₹7.5 lakh?

A. 50%	**B.** 75%
C. 85%	**D.** 100%

Answer B. 75% of outstanding default.

09. Education loans qualify as priority sector up to:

A. ₹10 lakh	**B.** ₹15 lakh
C. ₹20 lakh	**D.** ₹25 lakh

Answer D. Up to ₹25 lakh under the 2025 PSL Directions.

10. Interest at 9% for 5 years on ₹6 lakh (simple, no subvention) is:

A. ₹1.8 lakh	**B.** ₹2.7 lakh
C. ₹3.0 lakh	**D.** ₹5.4 lakh

Answer B. 6,00,000 x 9% x 5 = ₹2,70,000.

11. SVAMITVA property cards help rural housing finance by:

A. Giving free houses	**B.** Providing a record of rights for inhabited village land
C. Waiving stamp duty	**D.** Insuring houses

Answer B. They give owners documented rights over their houses and land in village abadi areas.

12. The best disbursement method for a rural house construction loan is:

A. Full amount upfront	**B.** Stage-wise against verified progress
C. After completion only	**D.** In cash to the contractor

Answer B. Stage-wise disbursement matches money to construction and reduces diversion.

13. PMAY-G funding between Centre and states (general category) is:

A. 50:50	**B.** 60:40
C. 75:25	**D.** 90:10

Answer B. 60:40; 90:10 for NE and Himalayan states; 100% Centre for UTs.

14. Repayment period for an education loan after moratorium can be up to:

A. 5 years	**B.** 7 years
C. 10 years	**D.** 15 years

Answer D. Up to 15 years after the moratorium.

15. A family's monthly surplus is ₹3,000 and the EMI on the requested loan is ₹3,800. The banker should:

A. Sanction as asked	**B.** Reduce the amount or extend tenure within policy
C. Reject all housing loans	**D.** Ask for a guarantor only

Answer B. Match the loan to repayment capacity.

Sources and dates used in this chapter

- Ministry of Rural Development: Cabinet approval of PMAY-G for FY 2024-25 to 2028-29 (2024); PMAY-G framework.
- Ministry of Education: PM-Vidyalaxmi scheme guidelines (2024); PM-USP CSIS and CGFSEL.
- Indian Banks' Association: Model Education Loan Scheme.

- RBI PSL Directions, 2025.

MODULE C: PRIORITY SECTOR FINANCING AND GOVERNMENT INITIATIVES

C04 Financial Inclusion, Financial Education and Benefit Delivery

59.09 cr
PMJDY accounts (19 August 2026)

55.7%
PMJDY accounts held by women

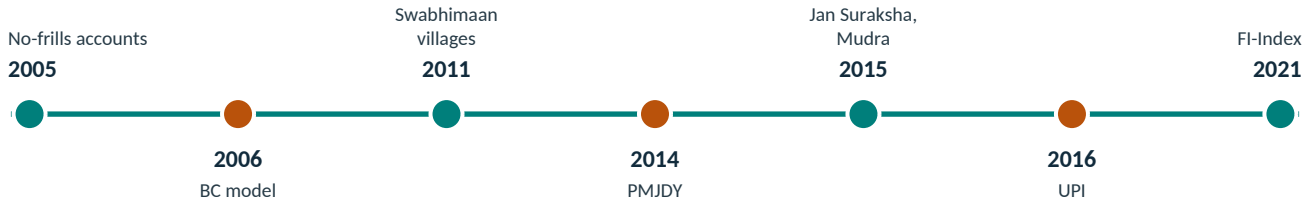
₹3.17 lakh cr
deposits in PMJDY accounts

67
RBI Financial Inclusion Index, 2026

Start with the decision. Your branch has 18,000 Jan Dhan accounts. A quarter are inoperative, many are zero-balance, and the BC in a nearby village says customers still share their PINs with him. The zonal office wants "deepening" of inclusion. What does that mean, how is it measured, and what can a branch actually do?

Financial inclusion is the process of ensuring access to appropriate financial products and services, at affordable cost, to all sections of society, particularly vulnerable groups, in a fair and transparent manner. It has three parts: **access** (an account and a nearby service point), **usage** (people actually save, pay, borrow, insure) and **quality** (products suit needs, customers understand them and are protected). India has largely solved access; the work now is usage and quality.

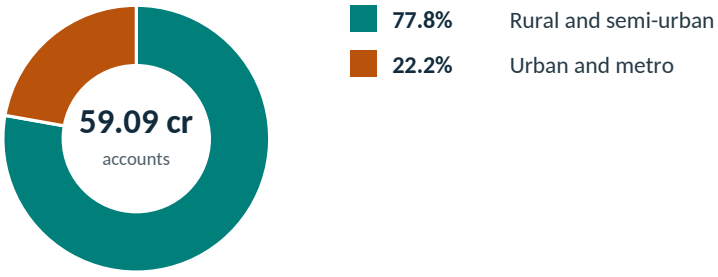
1. From access to usage



Milestones in financial inclusion.

The **Pradhan Mantri Jan Dhan Yojana (PMJDY)**, launched on **28 August 2014**, is the national mission for financial inclusion. It offers a basic savings account with no minimum balance, a RuPay debit card with accident insurance (₹2 lakh for accounts opened after 28 August 2018) and an overdraft of up to **₹10,000** for eligible account holders. As of **19 August 2026** there were **59.09 crore** PMJDY accounts with deposits of about **₹3.17 lakh crore**; 55.7% belonged to women and 77.8% were in rural and semi-urban areas.

PMJDY accounts by area, August 2026



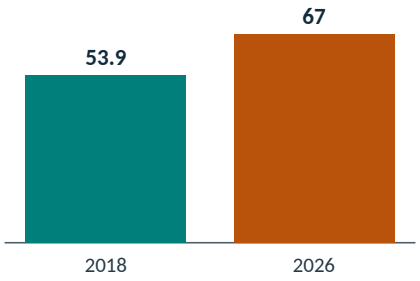
Source: Department of Financial Services, PIB (August 2026).

Large numbers of accounts are not the end goal. Government replies in 2026 showed that a significant share of PMJDY accounts were inoperative or had zero balance. Inoperative accounts break the benefit chain and expose customers to fraud through dormant account misuse. Re-KYC drives, activation through DBT and small transactions, and linking accounts to insurance and pension schemes are the main remedies.

2. Measuring inclusion: RBI's FI-Index

RBI publishes an annual **Financial Inclusion Index (FI-Index)** on a scale of 0 to 100, covering banking, investments, insurance, postal and pension services, with three sub-indices: **Access**, **Usage** and **Quality** (financial literacy, consumer protection, inequalities). The index has no base year. PIB reported that it rose from 53.9 in 2018 to **67 in 2026**. Usage carries the largest weight, which is why activating accounts matters more than opening new ones.

RBI FI-Index



Source: PIB, August 2026.

3. Financial education

Access without understanding can harm customers: they may fall for frauds, over-borrow, or buy unsuitable products. RBI's **National Strategy for Financial Inclusion** and the **National Strategy for Financial Education** set the framework. Delivery happens through **Centres for Financial Literacy (CFLs)** at block level, run by NGOs with sponsor banks; Financial Literacy Centres of banks; Financial Literacy Week each year; and the National Centre for Financial Education (NCFE).

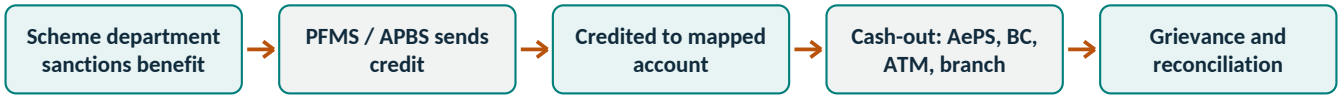
Message for rural customers	Why it matters
Never share PIN, OTP or card details, even with the BC	Most rural digital frauds start with shared credentials
Check the receipt or SMS for every transaction	Detects short payment and unauthorised debits
Borrow only from regulated lenders; read the key facts statement	Avoids illegal lenders and hidden charges
Keep the account active; update KYC	Prevents freezing and failed benefits
Report fraud immediately: bank, 1930 helpline, cybercrime portal	Fast reporting improves chances of recovery

At the branch

Training is successful when a customer can do a safe transaction alone and explain how to complain, not when an app is installed. Test the outcome, not the attendance.

4. Direct Benefit Transfer and the payment chain

Direct Benefit Transfer (DBT) credits subsidies, wages, pensions and scholarships directly to beneficiaries' accounts. The **Aadhaar Payments Bridge System (APBS)** of NPCI routes credits using the Aadhaar number mapped to one account (the NPCI mapper). Cash-out happens at branches, ATMs, BC points and through the **Aadhaar Enabled Payment System (AePS)**. The **JAM trinity** (Jan Dhan accounts, Aadhaar and Mobile) is the foundation.



The DBT chain. Each failure point needs a fix: mapping, account status, liquidity at BCs, grievance handling.

5. Livelihood missions and group finance

DAY-NRLM (rural) and **DAY-NULM** (urban) mobilise the poor into SHGs and link them to banks. Banks open savings accounts for groups, provide credit in increasing doses based on savings and grading, and receive interest subvention on SHG loans under the missions' rules. Chapter D03 covers SHG-bank linkage in detail.

6. Targeted lending to disadvantaged groups

- **SC/ST:** part of weaker sections under PSL; credit through state SC/ST development corporations; Stand-Up India for greenfield enterprises.
- **Minority communities:** banks monitor lending to notified minorities as part of weaker sections and the Prime Minister's 15-Point Programme.
- **Differential Rate of Interest (DRI) scheme:** loans to very poor borrowers at 4% interest within small limits, with a share of DRI lending reserved for SC/ST and through rural and semi-urban branches.
- **Women:** individual women beneficiaries up to ₹2 lakh are weaker sections; Mudra and Stand-Up India give special focus.
- **Persons with disabilities and transgender persons:** included in weaker sections.

> **Check before use.** Limits and conditions of the DRI scheme are set in RBI's master circular on the DRI scheme. Check the current limits before quoting them to a customer.

7. Calamity response and inclusion

After floods, droughts or cyclones, inclusion is tested. Banks implement relief measures (Chapter B03): restructuring, moratorium, fresh loans, and easier KYC for affected people who have lost documents. Keeping BC points and ATMs supplied with cash and restoring connectivity quickly lets relief payments reach people.

Worked case

> **Situation.** 18,000 PMJDY accounts; 25% inoperative; customers share PINs with the BC.
>
> **How to work it.** Run a re-KYC and activation drive with the BC and CFL, using Gram Sabha meetings and SHG federations. Link active accounts to PMSBY, PMJJBY and APY where eligible. Hold short sessions on safe transactions with a live demonstration at the BC point; change the BC process so the customer enters the PIN or biometric personally and always receives a receipt. Track active accounts, enrolments and complaint resolution each month as outcome measures.

Key facts to remember

Fact	Detail
PMJDY launch	28 August 2014
PMJDY status (19 Aug 2026)	59.09 crore accounts; ₹3.17 lakh crore deposits; 55.7% women; 77.8% rural and semi-urban
PMJDY overdraft	Up to ₹10,000 for eligible accounts
RBI FI-Index	0-100 scale; Access, Usage, Quality; 53.9 (2018) to 67 (2026)
JAM	Jan Dhan, Aadhaar, Mobile
APBS / AePS	Aadhaar-based credit of benefits / Aadhaar-based cash-out and payments
Cyber fraud helpline	1930

Quick revision

Remember	In one line
Inclusion	Access, usage and quality.
PMJDY	28 Aug 2014; 59.09 crore accounts (Aug 2026).
FI-Index	RBI; 0-100; 67 in 2026.
CFL	Block-level Centres for Financial Literacy.
DBT chain	APBS credit, mapped account, AePS cash-out.
Inoperative accounts	Break benefit delivery and invite misuse.
Outcome test	Can the customer transact safely alone?

Practice with explanations

01. PMJDY was launched on:

A. 15 August 2014	**B.** 28 August 2014
C. 2 October 2014	**D.** 1 April 2015

Answer B. PMJDY was launched on 28 August 2014.

02. As of 19 August 2026, PMJDY accounts numbered about:

A. 36 crore	**B.** 50 crore
C. 59 crore	**D.** 75 crore

Answer C. 59.09 crore accounts.

03. The share of PMJDY accounts held by women (August 2026) is about:

A. 35%	**B.** 45%
C. 56%	**D.** 65%

Answer C. 55.7% of accounts.

04. The overdraft facility under PMJDY is up to:

A. ₹5,000	**B.** ₹10,000
C. ₹15,000	**D.** ₹25,000

Answer B. Up to ₹10,000 for eligible account holders.

05. RBI's FI-Index has which three sub-indices?

A. Savings, Credit, Insurance	**B.** Access, Usage, Quality
C. Rural, Urban, Metro	**D.** Banking, Insurance, Pension

Answer B. Access, Usage and Quality.

06. RBI's FI-Index in 2026 was reported at:

A. 43.4	**B.** 53.9
C. 67	**D.** 80

Answer C. PIB reported 67 in 2026, up from 53.9 in 2018.

07. APBS is used for:

A. Card payments	**B.** Crediting benefits using Aadhaar-mapped accounts
C. Cheque clearing	**D.** Foreign remittances

Answer B. The Aadhaar Payments Bridge System routes DBT credits.

08. AePS allows customers to:

A. Open demat accounts	**B.** Withdraw cash and pay using Aadhaar and biometrics
C. Buy insurance	**D.** Apply for loans

Answer B. Aadhaar Enabled Payment System supports cash withdrawal, deposit and balance enquiry at BC points.

09. JAM stands for:

A. Jan Dhan, Aadhaar, Mobile	**B.** Job, Asset, Market
C. Jan Arogya, Aadhaar, Mudra	**D.** Jan Dhan, Atal, Mudra

Answer A. The JAM trinity underpins DBT.

10. Centres for Financial Literacy operate at:

A. State level	**B.** District level only
C. Block level	**D.** Village level only

Answer C. CFLs are set up at block level with NGOs and sponsor banks.

11. The national helpline number for reporting cyber fraud is:

A. 100	**B.** 112
C. 1930	**D.** 14567

Answer C. 1930, along with the cybercrime reporting portal.

12. Which financial inclusion dimension carries the most weight in RBI's FI-Index?

A. Access	**B.** Usage
C. Quality	**D.** All equal

Answer B. Usage carries the highest weight.

13. The best measure of a financial literacy programme's success is:

A. Number of attendees	**B.** Customers able to transact safely and complain if needed
C. Number of leaflets	**D.** Apps installed

Answer B. Outcomes, not outputs.

14. Inoperative PMJDY accounts are a concern mainly because they:

A. Increase bank profits	**B.** Block benefit credits and can be misused
C. Reduce PSL	**D.** Raise interest rates

Answer B. Inactive accounts break DBT delivery and are vulnerable to misuse.

15. Under the DRI scheme, loans are given at:

A. 2%	**B.** 4%
C. 7%	**D.** 9%

Answer B. DRI loans carry a concessional rate of 4%.

Sources and dates used in this chapter

- Department of Financial Services / PIB: PMJDY completes 12 years (27 August 2026), data as on 19 August 2026.
- RBI: Financial Inclusion Index (annual); National Strategy for Financial Inclusion; National Strategy for Financial Education.
- NPCI: APBS and AePS.
- RBI Master Circular on the Differential Rate of Interest scheme.

MODULE D: PROBLEMS AND PROSPECTS IN RURAL BANKING

D01 Emerging Trends in Rural Banking



28	84.9 lakh	₹3.04 lakh cr	1.74%
RRBs after One State, One RRB	SHGs with bank loans (March 2025)	loans outstanding to SHGs	NPA on SHG loans (March 2025)

Start with the decision. Your branch serves 25 villages with three BCs, two ATMs and a growing number of UPI users. Deposits are rising, but crop-loan NPAs spike after every bad monsoon, two BCs run out of cash on wage-payment days, and an NBFC is offering instant gold loans next door. What does a rural branch of the future look like, and how should it compete?

Rural banking has changed more in the last decade than in the previous three: universal accounts, digital payments, business correspondents, consolidated RRBs, SHG federations, digital land and crop records, and new competitors. Old problems remain: thin margins on small loans, seasonal and correlated risk, weak documentation and distance. This chapter sets out the problems and the prospects.

1. The role of banks in rural development

Role	What banks do
Savings mobilisation	Safe deposits, recurring deposits, small savings linked to goals
Credit	Crop and investment credit, allied activities, non-farm enterprises, housing, education, SHG and JLG loans
Payments	DBT, wages, remittances, UPI, AePS, merchant payments
Risk cover	Crop, livestock, life, accident and health insurance distribution; pensions
Development partner	Lead bank coordination, RSETIs, financial literacy, government schemes

2. Persistent problems of rural banking

- **High cost of service:** small loans and deposits, long distances, low transaction values.
- **Credit risk:** weather, pests, price crashes and health shocks; risks are correlated across a village.
- **Documentation:** unclear land titles, oral tenancy, informal income; weak credit histories.
- **Loan waivers and wilful default:** state loan waivers can damage repayment culture among those who could pay.
- **Staffing:** rural postings, language, turnover, and the burden of scheme targets.
- **Channel reliability:** BC cash shortages, power and network failures, agent misconduct.
- **Competition:** NBFCs, MFIs and fintech lenders reach customers faster, sometimes with less protection.



At the branch

Usage drops sharply after a BC point runs out of cash twice. Plan BC liquidity around known peaks (wage days, pension days, festival weeks) and give agents a fast way to replenish cash.

3. Emerging trends

Trend	What is changing	Implication for a branch
Consolidation	RRBs reduced to 28 from 1 May 2025; cooperative computerisation	Larger, better-capitalised rural lenders; common technology
Digital public infrastructure	Aadhaar, UPI, AgriStack Farmer IDs, Digital Crop Survey, ULI	Faster, data-based credit decisions; less paperwork

Trend	What is changing	Implication for a branch
Group finance at scale	DAY-NRLM SHGs and federations; JLGs	Low-NPA segment; larger repeat loans; women entrepreneurs
Allied and value chain finance	Dairy, fisheries, FPOs, warehousing, AIF	Lending tied to buyers and infrastructure, lower risk
Insurance and pensions	Jan Suraksha, PMFBY, PM-JAY	Protects repayment capacity; fee income
Customer protection	Microfinance framework, digital lending rules, Ombudsman	Fair pricing and recovery; grievance redress
Climate risk	More erratic rainfall, heat, floods	Climate-smart lending, insurance, diversification

4. Inclusive banking that works

Inclusion is sustainable when products suit the customer and the channel is economic for the bank. Savings products should allow very small, frequent deposits. Credit should match cash flows (seasonal for crops, monthly for dairy). Insurance should be bundled where it protects the loan. Delivery should combine branches, BCs, mobile and group meetings. Above all, the customer must understand the product and trust the channel.

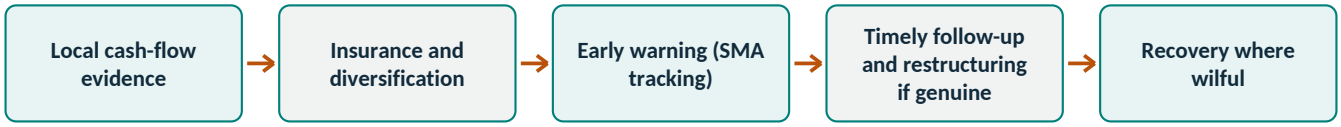
Volume-driven inclusion

- Accounts opened to meet targets
- Loans pushed without cash-flow match
- Agents without liquidity or training
- High inactivity and complaints

Value-driven inclusion

- Accounts used for DBT, savings and payments
- Loans sized to verified cash flow
- Agents with float, receipts and supervision
- Active use, repayment and trust

5. Managing credit quality



A credit quality cycle suited to rural portfolios.

Early warning matters: track SMA-0, SMA-1 and SMA-2 accounts, visit borrowers before the account becomes an NPA, distinguish genuine distress (crop failure, illness) from wilful default, and use the calamity relief framework where it applies. Group loans with strong federations show the best repayment: the NPA on bank loans to SHGs was **1.74%** at the end of March 2025.

6. Prospects

- Rising rural incomes and consumption (Chapter A03) widen demand for housing, vehicles, education and enterprise credit.
- Digital land and crop records, Farmer IDs and the Unified Lending Interface can cut the cost of appraisal and widen access for tenant and small farmers.
- FPOs and cooperatives with diversified businesses can become strong institutional borrowers.
- Women's SHG federations are creating a pipeline of first-time entrepreneurs (Lakhpati Didi goal).
- Renewable energy, micro-irrigation and storage offer long-term, productive lending.

Worked case

Situation. Your branch: three BCs, two run short of cash on wage days; crop NPAs spike after bad monsoons; an NBFC is taking gold-loan customers.

How to work it. Plan BC cash replenishment on wage and pension days and monitor failed transactions weekly. Push PMFBY coverage and allied-activity loans so that income is diversified, and track SMA accounts monthly after each monsoon. For gold loans, offer quick processing with transparent valuation and clear terms, and verify end use for agricultural classification. Build a pipeline of SHG federation and FPO borrowers, which are lower-risk and growing.

Key facts to remember

Fact	Detail
RRB consolidation	43 to 28 from 1 May 2025
SHG-BLP (31 March 2025)	143.3 lakh savings-linked SHGs; 84.94 lakh credit-linked; ₹3.04 lakh crore outstanding
SHG NPA	1.74% (31 March 2025)
SMA categories	SMA-0 (1-30 days), SMA-1 (31-60), SMA-2 (61-90) overdue

Quick revision

Remember	In one line
Rural banking roles	Savings, credit, payments, risk cover, development.
Correlated risk	One shock affects many borrowers at once.
BC liquidity	Plan cash for wage and pension days.
Value-driven inclusion	Use, repayment and trust, not just account counts.
Early warning	Track SMA-0/1/2 and visit early.
Best-performing segment	SHG loans: NPA 1.74% (March 2025).

Practice with explanations

01. Which is a persistent problem of rural banking?

A. Very large loan sizes
B. High cost of serving small, dispersed customers
C. No demand for credit
D. Excess collateral

Answer B. Small transactions over long distances raise cost per account.

02. Correlated risk in rural lending refers to:

A. Interest rate risk
B. Many borrowers affected by the same shock
C. Fraud by one borrower
D. Currency risk

Answer B. Droughts or price crashes hit whole villages together.

03. The NPA on bank loans to SHGs as of 31 March 2025 was about:

A. 1.7%
B. 4.8%
C. 7.5%
D. 10%

Answer A. NABARD data show 1.74%.

04. Loans outstanding to SHGs under SHG-BLP as of 31 March 2025 were about:

A. ₹1.04 lakh crore
B. ₹2.04 lakh crore
C. ₹3.04 lakh crore
D. ₹5.04 lakh crore

Answer C. ₹3.04 lakh crore to 84.94 lakh SHGs.

05. SMA-1 means principal or interest overdue for:

A. 1-30 days
B. 31-60 days
C. 61-90 days
D. More than 90 days

Answer B. SMA-0: 1-30, SMA-1: 31-60, SMA-2: 61-90 days.

06. Value-driven inclusion is best measured by:

A. Accounts opened
B. Active use and repayment
C. Number of camps
D. Cards issued

Answer B. Use and repayment show that products work for customers.

07. BC points run out of cash most often on:

A. Sundays
B. Wage and pension payment days
C. Bank holidays only
D. Year-end

Answer B. Benefit credits create predictable cash-out peaks.

08. Which trend lowers documentation cost for farm loans?

A. Loan waivers	**B.** Digital land and crop records with Farmer IDs
C. Branch closures	**D.** Higher collateral norms

Answer B. Verified digital records reduce paperwork and checks.

09. Loan waivers can harm rural banking mainly by:

A. Increasing deposits	**B.** Weakening repayment culture
C. Raising PSL targets	**D.** Reducing branch costs

Answer B. Expectation of waivers discourages repayment by those who can pay.

10. Value chain finance lowers risk because:

A. It needs no appraisal	**B.** Lending is linked to buyers and infrastructure
C. It is always collateralised	**D.** It is guaranteed by RBI

Answer B. Assured buyers and payment routing improve repayment.

11. Which is NOT a role of rural banks?

A. Payments	**B.** Insurance distribution
C. Fixing MSP	**D.** Credit

Answer C. MSP is fixed by the Government on CACP recommendations.

12. The number of RRBs after the 2025 amalgamation is:

A. 43	**B.** 35
C. 28	**D.** 20

Answer C. One State, One RRB reduced RRBs to 28.

Sources and dates used in this chapter

- Sa-Dhan and NABARD, Bharat Microfinance Report 2025; NABARD SHG-BLP data as on 31 March 2025 (Lok Sabha reply).
- Department of Financial Services: RRB amalgamation (May 2025).
- RBI directions on early recognition of stress (SMA categories).

MODULE D: PROBLEMS AND PROSPECTS IN RURAL BANKING

D02 Technology in Rural Development

10.31 cr
AgriStack Farmer IDs (August 2026)

648
districts in Digital Crop Survey, Rabi 2025-26

ULI
RBI's Unified Lending Interface

1 Jan 2027
RBI KCC Directions, 2026 take effect

Start with the decision. A farmer with a Farmer ID, a geo-tagged crop record and a satellite-verified sown area applies for a KCC renewal on his phone. Another farmer has no digital records, leases land orally and has a basic phone. How can technology speed up the first loan without leaving the second farmer behind?

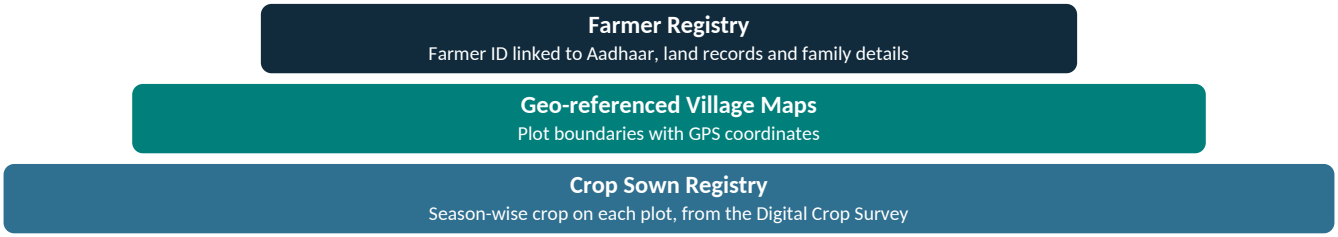
Technology is changing how rural India farms, sells, saves and borrows. Digital public infrastructure (DPI) such as Aadhaar, UPI and AgriStack creates verified data; remote sensing and sensors improve farm decisions; mobile channels bring banking to the village. For banks, technology lowers the cost of appraisal and service. The risks are exclusion of people without digital records, fraud, and over-reliance on data that may be wrong.

1. Technology in agriculture

Technology	Use	Banking link
Satellite and remote sensing	Crop area, crop health, yield estimation, damage assessment	Verify sown area; faster insurance claims
Drones	Spraying, mapping, crop monitoring (e.g. Namo Drone Didi for SHG women)	Finance drones for SHGs and custom hiring centres
Sensors and IoT	Soil moisture, weather stations, cold-chain monitoring	Better irrigation decisions; monitor financed assets
Micro-irrigation and solar pumps	Water saving and lower energy cost	Term loans with subsidy (PMKSY, PM-KUSUM)
Digital advisories and markets	Weather advisories, e-NAM, ONDC, price information	Better price realisation and repayment

2. Digital public infrastructure for agriculture: AgriStack

Under the **Digital Agriculture Mission**, the Ministry of Agriculture and Farmers Welfare is building **AgriStack**, a farmer-centric DPI with three registries:



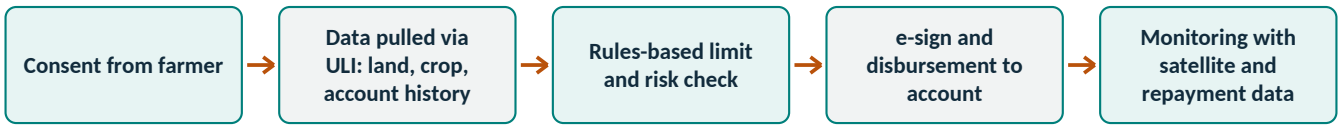
The three AgriStack registries.

By **3 August 2026** more than **10.31 crore Farmer IDs** had been created, and the **Digital Crop Survey** covered 648 districts and over 31 crore plots in Rabi 2025-26. Farmer IDs are being used for PM-KISAN, crop insurance, KCC and MSP procurement. A **Unified Farmer Service Interface** allows authorised applications to access data with the farmer's consent.

3. Digital credit: ULI and digital KCC

RBI's **Unified Lending Interface (ULI)**, developed by the Reserve Bank Innovation Hub, connects lenders through standard APIs to data sources such as land records, satellite crop data, dairy cooperative records and account aggregator data, with consent. It enables quick, paperless appraisal of small loans, especially farm and MSME credit. Several banks now offer **digital KCC**: online

application, land record verification from state portals, automated limit setting and e-signed documentation.



A digital farm loan journey. Each step must keep consent, accuracy and grievance redress in view.

> **Check before use.** RBI's Kisan Credit Card Directions, 2026 (issued 19 June 2026, effective 1 January 2027) consolidate KCC rules for all lenders. Digital KCC processes must follow them.

4. Technology for financial inclusion

- **Core banking and BCs:** real-time transactions at BC points with biometric authentication.
- **AePS and micro-ATMs:** cash-out with Aadhaar and fingerprint.
- **UPI and RuPay:** low-cost payments, including UPI on feature phones (UPI 123PAY) and voice-based options for low-literacy users.
- **Account Aggregator framework:** consent-based sharing of financial data for credit.
- **e-RUPI vouchers** and DBT for targeted benefits.

5. Technology in rural development programmes

Geo-tagging of assets (PMAY-G houses, rural employment works), drone surveys for property cards (**SVAMITVA**), dashboards for scheme monitoring, and digital attendance and payments have reduced leakage and improved transparency. Land record digitisation (DILRMP) and unique land parcel IDs make land-based lending easier and faster.

6. Risks and how to manage them

Risk	Safeguard
• Exclusion of people without digital records or smartphones	• Keep assisted and offline channels; accept alternative evidence for tenants
• Data errors (wrong land or crop record)	• Allow correction; verify outliers in the field
• Cyber fraud and mule accounts	• Strong authentication, fraud monitoring, customer education (1930)
• Opaque algorithms and unfair pricing	• Board-approved policy, key facts statement, grievance redress

Exam tip

AgriStack is built by the **Ministry of Agriculture and Farmers Welfare**; ULI is built by RBI's **Reserve Bank Innovation Hub**. Do not mix them up.

Worked case

Situation. Farmer A has a Farmer ID, digital land records and crop survey data; Farmer B leases land orally and has a basic phone.

How to work it. Farmer A can be processed through the digital KCC journey using ULI data, with a field visit only for exceptions. For Farmer B, use an assisted channel: the BC or branch collects a tenancy declaration or certificate (where the state provides one), a JLG arrangement or an SHG link, and crop verification by local inquiry or the crop survey. Technology should speed up the easy cases so that staff have time for the hard ones.

Key facts to remember

Fact	Detail
AgriStack	Farmer Registry, Geo-referenced Village Maps, Crop Sown Registry; Ministry of Agriculture
Farmer IDs	Over 10.31 crore (3 August 2026)
Digital Crop Survey	648 districts; over 31 crore plots in Rabi 2025-26
ULI	Unified Lending Interface by Reserve Bank Innovation Hub
RBI KCC Directions, 2026	Issued 19 June 2026; effective 1 January 2027
SVAMITVA	Drone-based property cards for rural inhabited areas

Quick revision

Remember	In one line
DPI	Shared digital rails: Aadhaar, UPI, AgriStack, ULI.
AgriStack registries	Farmer, village maps, crop sown.
ULI	API-based access to data for quick loans, with consent.
Digital Crop Survey	Geo-tagged, plot-level crop data each season.
Exclusion risk	Keep assisted channels for those without records.
Data errors	Allow correction and verify outliers.

Practice with explanations

01. Which is NOT one of the three AgriStack registries?

A. Farmer Registry **B.** Crop Sown Registry
C. Geo-referenced Village Maps **D.** Fertiliser Dealer Registry

Answer D. The three are Farmer Registry, Geo-referenced Village Maps and Crop Sown Registry.

02. The Unified Lending Interface was developed by:

A. NPCI **B.** Reserve Bank Innovation Hub
C. NABARD **D.** Ministry of Agriculture

Answer B. ULI is built by RBIH, a subsidiary of RBI.

03. AgriStack is built by:

A. RBI **B.** NPCI
C. Ministry of Agriculture and Farmers Welfare **D.** SEBI

Answer C. It is under the Digital Agriculture Mission of the Ministry of Agriculture.

04. By August 2026, Farmer IDs created under AgriStack were over:

A. 4 crore **B.** 7 crore
C. 10 crore **D.** 15 crore

Answer C. Over 10.31 crore as of 3 August 2026.

05. RBI's Kisan Credit Card Directions, 2026 become effective from:

A. 1 April 2026 **B.** 19 June 2026
C. 1 January 2027 **D.** 1 April 2027

Answer C. Issued on 19 June 2026, effective 1 January 2027.

06. SVAMITVA uses which technology to map rural properties?

A. Satellite only **B.** Drones
C. Blockchain **D.** RFID

Answer B. Drone surveys create maps and property cards.

07. The main exclusion risk of digital lending is:

A. Too many loans	**B.** Leaving out people without digital records
C. Lower interest rates	**D.** Fewer branches

Answer B. Tenants and people without smartphones may be left out unless assisted channels remain.

08. AePS allows cash withdrawal using:

A. Debit card PIN	**B.** Aadhaar and biometric authentication
C. Cheque	**D.** Passbook

Answer B. Aadhaar Enabled Payment System uses Aadhaar and fingerprint.

09. Satellite data in farm lending is used mainly to:

A. Set interest rates	**B.** Verify sown area and assess crop damage
C. Fix MSP	**D.** Open accounts

Answer B. Remote sensing verifies crop area and damage.

10. Which framework allows consent-based sharing of financial data?

A. Account Aggregator	**B.** PSLC
C. TReDS	**D.** e-NAM

Answer A. Account Aggregators move financial data with customer consent.

11. Namo Drone Didi relates to:

A. Drones for SHG women for agricultural services	**B.** Drone delivery of cash
C. Drone surveys for land titles	**D.** Weather forecasting

Answer A. SHG women are trained and equipped to provide drone services to farmers.

12. Good practice in digital lending includes:

A. Hiding charges	**B.** Key facts statement and grievance redress
C. No consent needed	**D.** Automatic rejection of all exceptions

Answer B. Transparency and redress protect borrowers.

Sources and dates used in this chapter

- Ministry of Agriculture and Farmers Welfare: Digital Agriculture Mission and AgriStack progress (August 2026); Lok Sabha replies (February 2026).
- RBI / Reserve Bank Innovation Hub: Unified Lending Interface.
- RBI Kisan Credit Card Directions, 2026 (19 June 2026).

MODULE D: PROBLEMS AND PROSPECTS IN RURAL BANKING

D03 Microcredit and Self-Help Groups

1992
SHG-bank linkage pilot by NABARD

143.3 lakh
savings-linked SHGs (March 2025)

₹20 lakh
collateral-free limit for DAY-NRLM SHGs

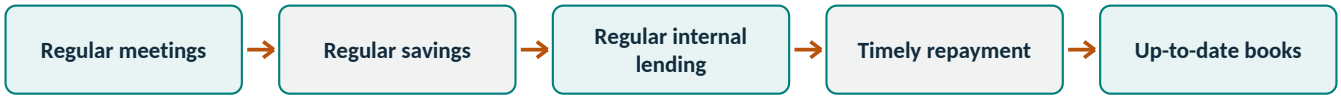
6x
first dose: 6 times corpus or ₹1.5 lakh

Start with the decision. A women's SHG formed eight months ago has ₹60,000 in savings and interest earned, a revolving fund of ₹30,000, and meets every week. It asks for its first bank loan. Is it eligible? How much should you lend? What if it wants ₹12 lakh three years later? This chapter explains microcredit, SHGs and JLGs and the rules banks follow.

Microcredit means small, usually collateral-free loans to poor households for income generation and consumption smoothing. **Microfinance** is wider: savings, credit, insurance, remittances and pensions for low-income people. India has two main models: the **SHG-Bank Linkage Programme (SHG-BLP)**, a savings-led model where banks lend to groups; and the **MFI / JLG model**, where NBFC-MFIs and banks lend to members of joint liability groups.

1. Self-help groups

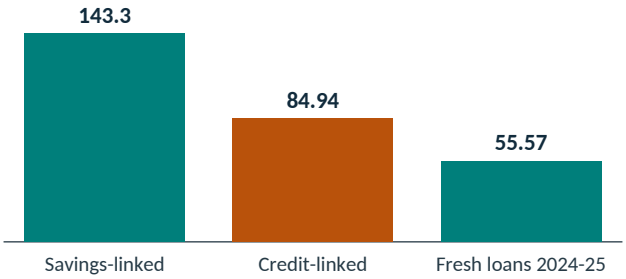
An SHG is an informal group of 10 to 20 people (5 in special groups such as persons with disabilities or remote tribal areas), mostly women of similar socio-economic background, who save regularly, lend to each other from the common fund and take decisions together. Good SHGs follow the **Panchasutras**:



The Panchasutras of a good SHG.

NABARD launched the **SHG-Bank Linkage Programme as a pilot in 1992**, with RBI approval, to link 500 groups. It is now the world's largest microfinance programme. As of **31 March 2025**, **143.3 lakh** SHGs were savings-linked with banks, covering about **17.1 crore** households, with savings of ₹71,433 crore; **84.94 lakh** SHGs had loans outstanding of about **₹3.04 lakh crore**; and the NPA was **1.74%**.

SHG-BLP at a glance, 31 March 2025 (number of SHGs, lakh)



Source: NABARD data reported in the Bharat Microfinance Report 2025 and Lok Sabha replies.

2. Models of SHG-bank linkage

Model	Who forms the SHG	Who lends
Model I	Bank itself	Bank lends directly to the SHG
Model II (most common)	NGOs, government agencies (e.g. State Rural Livelihoods Missions)	Bank lends directly to the SHG
Model III	NGO or MFI	Bank lends to the NGO/MFI, which on-lends to SHGs

3. Lending to SHGs under DAY-NRLM

RBI's Master Circular on DAY-NRLM sets the rules. An SHG is eligible when it has been active for at least **six months** as per its books, follows the Panchasutras, and qualifies under NABARD's grading norms (done by federations where they exist). Defunct SHGs revived and active for three months are also eligible. Banks may lend as a term loan, a cash credit limit (CCL), or both. Loans are given in repeat **doses**:

Dose (term loan) / year (CCL)	Amount
First	6 times the existing corpus or ₹1.5 lakh, whichever is higher
Second	8 times the corpus or ₹3 lakh, whichever is higher
Third	Minimum ₹6 lakh, based on the Micro Credit Plan appraised by the federation
Fourth onwards	Above ₹6 lakh, based on the Micro Credit Plan and credit history

The **corpus** includes the group's own savings, the revolving fund received, interest earned from internal lending and other income. For a CCL, banks sanction a minimum of ₹6 lakh for three years with a yearly drawing power on the same scale. **Collateral:** no collateral and no margin up to ₹10 lakh, and no collateral up to **₹20 lakh** for DAY-NRLM SHGs; no lien on the SHG's savings account; such loans are eligible for cover under the Credit Guarantee Fund for Micro Units (CGFMU). Mature, well-performing SHGs' individual members may get enterprise loans up to ₹10 lakh.



Memory trick

SHG doses: **6x or 1.5 lakh, 8x or 3 lakh, then 6 lakh+**. Collateral-free up to **₹20 lakh**. Eligible after **6 months**.

4. Support from DAY-NRLM

- **Revolving Fund:** ₹20,000 to ₹30,000 per SHG as corpus, to build financial management and credit history.
- **Community Investment Fund (CIF):** routed through village and cluster federations, used to lend to SHGs and for collective activities.
- **Interest subvention:** on SHG loans as per the scheme, with additional subvention for prompt repayment in specified districts.
- **No capital subsidy** is given to SHGs under DAY-NRLM.
- **Bank Sakhis and BC Sakhis:** SHG women who help members with banking and act as BCs.

5. Joint liability groups (JLGs)

NABARD introduced the JLG scheme in 2006 for tenant farmers, oral lessees, sharecroppers and small farmers without proper land titles. A JLG has **4 to 10** members engaged in similar activities, who borrow individually or as a group and give a **mutual guarantee** for each other's loans. JLGs do not need to save first. NBFC-MFIs use the JLG model widely for small loans to women.

SHG	JLG
• 10-20 members	• 4-10 members
• Savings first, then credit	• Credit without prior savings
• Group borrows; internal lending to members	• Members borrow; mutual guarantee
• Bank-linked; strong federations under DAY-NRLM	• Used by banks and MFIs; suits tenant farmers

6. Regulation of microfinance

RBI's **Master Direction on microfinance loans (2022)** applies to all regulated lenders. A microfinance loan is a collateral-free loan to a household with annual income up to **₹3 lakh**. Lenders must have a board-approved policy on pricing, assess household income, cap the household's total repayment obligations on microfinance loans at **50% of monthly household income**, give a key facts statement, allow prepayment without penalty and follow fair recovery practices (no harassment, recovery only at designated places and times). The 2022 rules removed the old interest-rate cap for NBFC-MFIs and replaced it with this policy-based approach. In 2025 RBI reduced the qualifying asset requirement for NBFC-MFIs from 75% to 60%.

7. Credit plus: from groups to enterprises

Microcredit works best with "credit plus": training, market links, insurance and federation support. Successful SHG members graduate to individual enterprise loans, Mudra and PMEGP. Over-indebtedness, multiple borrowing from several lenders and coercive recovery are the main risks, as past microfinance crises in some states showed. Credit bureau checks and the 50% repayment cap protect borrowers.

Worked case

Situation. The SHG is eight months old, with own savings and interest of ₹60,000 and a revolving fund of ₹30,000. It follows the Panchasutras and is graded A by the village organisation.

How to work it. Eligible: active more than six months, Panchasutras followed, graded. Corpus = ₹60,000 + ₹30,000 = ₹90,000. First dose = higher of 6 x ₹90,000 (₹5.4 lakh) and ₹1.5 lakh = **₹5.4 lakh**, based on the group's Micro Credit Plan. No collateral, no margin, no lien on the savings account. Three years later, a ₹12 lakh request is within the ₹20 lakh collateral-free limit and depends on the Micro Credit Plan and repayment record.

Key facts to remember

Fact	Detail
SHG-BLP	Pilot by NABARD in 1992
SHG size	10-20 members (5 in special groups)
Eligibility	Active 6 months; Panchasutras; graded
Loan doses	6x corpus or ₹1.5 lakh; 8x or ₹3 lakh; ₹6 lakh+
Collateral-free (DAY-NRLM)	Up to ₹20 lakh; no margin up to ₹10 lakh; CGFMU cover
Revolving Fund	₹20,000-30,000 per SHG
SHG-BLP (31 March 2025)	143.3 lakh savings-linked; 84.94 lakh credit-linked; ₹3.04 lakh crore; NPA 1.74%
JLG	NABARD scheme 2006; 4-10 members; mutual guarantee
Microfinance loan (RBI 2022)	Household income up to ₹3 lakh; repayment cap 50% of income

Quick revision

Remember	In one line
Microcredit vs microfinance	Small loans vs full range of financial services for the poor.
Panchasutras	Meetings, savings, internal lending, repayment, books.
SHG-BLP	NABARD pilot 1992; savings-led.
First dose	6 times corpus or ₹1.5 lakh, whichever is higher.
Collateral-free	₹20 lakh for DAY-NRLM SHGs.
JLG	4-10 members, mutual guarantee, no prior savings.
Repayment cap	50% of monthly household income on microfinance loans.

Practice with explanations

01. The SHG-Bank Linkage Programme was launched as a pilot by NABARD in:

A. 1982 **B.** 1992
C. 1999 **D.** 2006

Answer B. NABARD began the pilot in 1992 with RBI approval.

02. An SHG under DAY-NRLM normally has:

A. 2-5 members **B.** 4-10 members
C. 10-20 members **D.** 20-50 members

Answer C. 10 to 20 members; 5 for special groups.

03. To be eligible for a bank loan, an SHG should be active for at least:

A. 3 months	**B.** 6 months
C. 12 months	**D.** 24 months

Answer B. At least six months as per its books of accounts.

04. The first dose of loan to an SHG is:

A. 4 times corpus or ₹1 lakh	**B.** 6 times corpus or ₹1.5 lakh, whichever is higher
C. 8 times corpus or ₹3 lakh	**D.** Fixed at ₹6 lakh

Answer B. First dose: 6 times corpus or ₹1.5 lakh, whichever is higher.

05. Collateral-free loans to DAY-NRLM SHGs are allowed up to:

A. ₹5 lakh	**B.** ₹10 lakh
C. ₹20 lakh	**D.** ₹50 lakh

Answer C. RBI raised the limit from ₹10 lakh to ₹20 lakh in 2021.

06. An SHG has a corpus of ₹90,000. Its first-dose loan is:

A. ₹1.5 lakh	**B.** ₹3 lakh
C. ₹5.4 lakh	**D.** ₹7.2 lakh

Answer C. 6 x 90,000 = ₹5.4 lakh, which is higher than ₹1.5 lakh.

07. A JLG generally has:

A. 2-3 members	**B.** 4-10 members
C. 10-20 members	**D.** 25+ members

Answer B. Joint liability groups have 4 to 10 members.

08. The JLG scheme of NABARD was introduced in:

A. 1992	**B.** 2000
C. 2006	**D.** 2015

Answer C. NABARD introduced JLG financing in 2006, mainly for tenant farmers.

09. Under RBI's 2022 framework, a household's repayments on microfinance loans should not exceed:

A. 30% of monthly income	**B.** 40%
C. 50%	**D.** 60%

Answer C. The cap is 50% of monthly household income.

10. The income ceiling for a microfinance loan is annual household income up to:

A. ₹1.25 lakh	**B.** ₹2 lakh
C. ₹3 lakh	**D.** ₹5 lakh

Answer C. ₹3 lakh a year.

11. Which is NOT one of the Panchasutras?

A. Regular meetings	**B.** Regular savings
C. Collateral security	**D.** Up-to-date books

Answer C. SHG loans are collateral-free; the Panchasutras are about group discipline.

12. Under SHG-BLP Model II, the SHG is formed by:

A. The bank itself	**B.** NGOs or government agencies, with the bank lending directly
C. An MFI that borrows from the bank	**D.** The RBI

Answer B. Model II is the most common: promoted by NGOs or SRLMs, financed directly by banks.

13. As of 31 March 2025, the NPA on bank loans to SHGs was about:

A. 0.5%	**B.** 1.7%
C. 5%	**D.** 9%

Answer B. 1.74%, among the lowest in retail lending.

14. Revolving Fund support to an SHG under DAY-NRLM is:

A. ₹5,000-10,000	**B.** ₹20,000-30,000
C. ₹50,000	**D.** ₹1 lakh

Answer B. ₹20,000 to ₹30,000 per SHG.

15. Which is a key difference between SHGs and JLGs?

A. JLGs must save before borrowing	**B.** SHGs are savings-led; JLGs borrow with mutual guarantee without prior savings
C. JLGs are larger	**D.** SHGs give individual guarantees

Answer B. SHGs save first; JLGs rely on mutual guarantee.

Sources and dates used in this chapter

- RBI Master Circular - DAY-NRLM (RBI/2024-25/20, 16 April 2024, as updated).
- RBI circular on collateral-free loans to SHGs under DAY-NRLM (August 2021).
- RBI Master Direction - Regulatory Framework for Microfinance Loans, 2022.
- Sa-Dhan and NABARD, Bharat Microfinance Report 2025; Lok Sabha reply on SHG-BLP (2025).

APPENDIX: EXAM-REPEAT POINTS

APX 150 Exam-Repeat Points for Rural Banking

150	4	95+	2026
one-line points to revise	modules covered	recalled topics checked	figures updated to this year

Start with the decision. These are the facts that keep coming back in the CAIIB Rural Banking paper. We checked the topics against question lists recalled by candidates (2023 to 2025 papers) and wrote one short, current point for each. Read this list the night before the exam, and again on the morning of it.

How this list was made. Coaching sites publish topics recalled by candidates after each sitting: SHGs, KCC, PMFBY, MGNREGA, PMAY-G, PMGSY, Panchayati Raj, poverty committees, Lead Bank Scheme, NABARD, PSL, MUDRA, CGTMSE, project appraisal (DSCR, BCR, IRR, payback) and the social security schemes appear again and again. Each point below states the current rule, checked against the official source used in the chapter shown in the last column. A recalled topic tells you what is asked; it does not tell you the right answer. Where an older rule has changed (for example MGNREGA to VB-G RAM G, or the SFB PSL target), the point gives the new rule and names the old one.

Exam tip

Most repeated topic areas in recalled papers: SHG and JLG norms, KCC and interest subvention, PMFBY premium, MGNREGA / VB-G RAM G, PMAY-G, PSL targets, Lead Bank Scheme, NABARD functions, MSME definitions and CGTMSE, project appraisal ratios, PMJJBY / PMSBY / APY, and poverty estimation committees.

Module A: Rural India

No.	Point to remember	Ch.
1	Census "rural" = any area that is not a statutory town or a census town.	A01
2	Census town needs all three: population 5,000+, 75%+ of male main workers outside agriculture, density 400+ per sq km.	A01
3	RBI treats a centre with population below 10,000 as rural; 10,000 to under 1 lakh is semi-urban.	A01
4	Census 2011: rural population 83.31 crore, which is 68.84% of 121.09 crore.	A01
5	Literacy rate is calculated on people aged 7 and above, not the whole population.	A01
6	Literacy 2011: India 72.99%, rural 67.77%, urban 84.11%.	A01
7	Sex ratio 2011 (females per 1,000 males): India 943, rural 949, urban 929; child sex ratio 919.	A01
8	Unemployment rate = unemployed / labour force, not / population.	A01
9	Census 2027 will be the first digital census, with caste enumeration; reference date 1 March 2027.	A01
10	73rd Amendment: passed 1992, in force 24 April 1993 (National Panchayati Raj Day).	A02
11	Panchayats are in Part IX (Articles 243 to 243O); the Eleventh Schedule lists 29 subjects.	A02
12	Three tiers: village, block and district. The middle tier is optional if state population is below 20 lakh.	A02
13	At least one-third of seats and chairperson posts are reserved for women (Article 243D).	A02
14	Panchayat term is five years (Article 243E); elections are held by the State Election Commission (Article 243K).	A02
15	Gram Sabha = all registered voters of the village; it approves plans and beneficiary lists.	A02
16	PESA, 1996 extends panchayats to Fifth Schedule (tribal) areas.	A02
17	RSETIs are self-employment training institutes run by the lead bank in each district.	A02

No.	Point to remember	Ch.
18	GDP = GVA + product taxes - product subsidies.	A03
19	Agriculture gives about one-fifth of national income but employs over 40% of workers, so income per worker is low.	A03
20	NABARD NAFIS 2021-22: average rural household income ₹12,698 a month; agricultural households ₹13,661.	A03
21	NAFIS 2021-22: 52.0% of rural households had outstanding debt (47.4% in 2016-17).	A03
22	HCES 2023-24: average monthly per capita consumption, rural ₹4,122 and urban ₹6,996.	A03
23	Gini coefficient: 0 = perfect equality, 1 = perfect inequality.	A03
24	Poverty estimates by committee: Lakdawala (1993), Tendulkar (2009), Rangarajan (2014). Tendulkar 2011-12 rural poverty was 25.7%.	A03
25	Multidimensional Poverty Index uses 12 indicators in health, education and living standards.	A03
26	Covariate risk: one shock (drought, flood) hits many borrowers in one area at the same time.	A03
27	PMGSY was launched in December 2000 for all-weather road connectivity.	A04
28	PMGSY-IV (2024-25 to 2028-29): 62,500 km of roads to 25,000 habitations, outlay ₹70,125 crore.	A04
29	PMGSY-IV eligibility: 500+ population in plains, 250+ in NE and hill areas, 100+ in LWE districts.	A04
30	Jal Jeevan Mission: launched 15 August 2019; tap water at 55 litres per person per day; extended to December 2028.	A04
31	Swachh Bharat Mission (Gramin) launched 2 October 2014; Phase II targets ODF Plus.	A04
32	Warehouse receipts are regulated by WDRA under the Warehousing (Development and Regulation) Act, 2007.	A04
33	e-NWR (electronic negotiable warehouse receipt) is the basis for pledge loans against stored produce.	A04
34	Agriculture Infrastructure Fund: 3% interest subvention on loans up to ₹2 crore for post-harvest infrastructure.	A04
35	RIDF is funded by banks' PSL shortfall deposits; NABARD lends from it to state governments, not to individuals.	A04
36	Agricultural year runs July to June.	A05
37	Three crop seasons: kharif (sown with the monsoon, June-July), rabi (sown October-November) and zaid (summer, between rabi and kharif).	A05
38	Holding size classes: marginal below 1 ha; small 1-2 ha; semi-medium 2-4; medium 4-10; large 10 ha and above.	A05
39	Agriculture Census 2015-16: average holding 1.08 ha; small and marginal holdings are about 86% of all holdings.	A05
40	CACP recommends MSP for 22 crops; sugarcane gets FRP. MSP is fixed at least 1.5 times A2+FL cost.	A05
41	PMFBY farmer premium: 2% kharif, 1.5% rabi, 5% commercial and horticulture crops.	A05
42	NMSA (sustainable agriculture) is one of the missions under the National Action Plan on Climate Change.	A05
43	Community Development Programme started on 2 October 1952: the first rural development approach.	A06
44	IRDP began 1978-79 and went nationwide on 2 October 1980; it is the classic target group approach.	A06
45	SGSY (1 April 1999) replaced IRDP and allied schemes; NRLM replaced SGSY in June 2011, renamed DAY-NRLM in 2016.	A06
46	MGNREGA (2005) gave 100 days of wage work. The VB-G RAM G Act, 2025 replaces it from 1 July 2026 with 125 days.	A06
47	DDU-GKY (2014) gives placement-linked skill training to rural youth.	A06
48	PMAY-G started 1 April 2016 as the successor to Indira Awaas Yojana.	A06
49	SPMRM (Rurban Mission, February 2016) uses the cluster approach: 300 clusters of villages.	A06
50	Watershed approach treats the whole drainage area to hold water and soil.	A06
51	e-NAM, the online platform linking mandis, was launched on 14 April 2016.	A07
52	Scheme for formation and promotion of 10,000 FPOs was launched in 2020.	A07
53	CPI-AL and CPI-RL (agricultural and rural labourers) are compiled by the Labour Bureau.	A07
54	NABARD prepares a Potential Linked Credit Plan (PLP) for every district.	A07

No.	Point to remember	Ch.
55	Cobweb cycle: high price leads to over-planting, glut and a price crash the next season.	A07

Module B: Financing rural development

No.	Point to remember	Ch.
56	NABARD: set up 12 July 1982 under the NABARD Act, 1981, on the CRAFICARD recommendation (chair B. Sivaraman).	B01
57	NABARD is fully owned by the Government of India; paid-up capital ₹17,080 crore, authorised capital ₹30,000 crore.	B01
58	RBI regulates RRBs and rural cooperative banks; NABARD inspects (supervises) them.	B01
59	Refinance: NABARD funds the lending bank; the credit risk stays with the bank.	B01
60	Lead Bank Scheme, 1969: based on the Gadgil Study Group and the Nariman Committee.	B01
61	Lead bank forums: SLBC (state), DCC and DLRC (district), BLBC (block). The Lead District Manager convenes the district forums.	B01
62	Service area approach came in 1989 and was largely withdrawn in 2004.	B01
63	PLP is NABARD's district potential; ACP is the banks' Annual Credit Plan built on it.	B01
64	Microfinance loan (RBI, 2022): collateral-free loan to a household with annual income up to ₹3 lakh.	B01
65	Repayment cap for microfinance loans: 50% of monthly household income.	B01
66	All India Rural Credit Survey, 1954: "cooperation has failed, but cooperation must succeed".	B02
67	First RRBs opened 2 October 1975 (Narasimham Working Group); RRB Act, 1976.	B02
68	RRB share capital: Centre 50%, sponsor bank 35%, state 15%.	B02
69	RRBs were amalgamated from 43 to 28 with effect from 1 May 2025.	B02
70	Short-term cooperative structure: StCB - DCCB - PACS. Long-term: SCARDB - PCARDB.	B02
71	RBI permitted the business correspondent and business facilitator models in 2006; the bank is responsible for its BC.	B02
72	Small finance banks: PSL target 60% of ANBC from 2025-26 (earlier 75%).	B02
73	KCC was introduced in 1998, revised in 2012 and extended to animal husbandry and fisheries in 2018-19.	B03
74	KCC first-year limit = scale of finance x area + 10% (post-harvest and household) + 20% (repairs and maintenance) + crop insurance.	B03
75	KCC is valid for five years, with the limit raised 10% each year for cost escalation.	B03
76	Scale of finance for each crop is fixed every year by the District Level Technical Committee (DLTC).	B03
77	MISS: short-term crop loans at 7%, with 3% prompt repayment incentive, so 4% effective. Budget 2025-26 announced a ₹5 lakh limit.	B03
78	Collateral-free agriculture loans: up to ₹2 lakh per borrower from 1 January 2025 (earlier ₹1.6 lakh).	B03
79	Natural calamity relief applies when crop loss is 33% or more: restructure, moratorium and fresh loan.	B03
80	A gold loan counts as agriculture (PSL) only when the end use is agriculture and is verified.	B03
81	Rural non-farm sector = all rural activity other than crop and livestock production.	B04
82	Nayak norm: working capital at least 20% of projected turnover for MSE limits up to ₹5 crore; borrower margin 5% of turnover.	B04
83	PMEGP: margin money subsidy 15% to 35%; project up to ₹50 lakh (manufacturing) and ₹20 lakh (service); KVIC is the nodal agency.	B04
84	PM Vishwakarma (17 September 2023): 18 trades; loans of ₹1 lakh and ₹2 lakh at 5%; ₹15,000 toolkit support.	B04
85	MUDRA categories: Shishu up to ₹50,000; Kishore up to ₹5 lakh; Tarun up to ₹10 lakh; Tarun Plus up to ₹20 lakh.	B04
86	Stand-Up India: ₹10 lakh to ₹1 crore for greenfield units of SC/ST and women entrepreneurs.	B04
87	MSME classification is composite: an enterprise must meet both the investment limit and the turnover limit.	B05

No.	Point to remember	Ch.
88	From 1 April 2025: micro ₹2.5 cr / ₹10 cr; small ₹25 cr / ₹100 cr; medium ₹125 cr / ₹500 cr (investment / turnover).	B05
89	Udyam registration started 1 July 2020; the Udyam Assist Platform covers informal micro units.	B05
90	MSMED Act delayed payment: buyer must pay within 45 days; interest 3 times the bank rate, compounded monthly; disputes go to MSEFC.	B05
91	Collateral-free loans to MSEs are mandatory up to ₹10 lakh.	B05
92	CGTMSE (set up 2000) guarantees loans up to ₹10 crore from 1 April 2025.	B05
93	SIDBI was set up in 1990 as the principal institution for MSME finance.	B05
94	TReDS discounts MSME invoices accepted by buyers, without recourse to the MSME.	B05
95	Project cycle: identify, formulate, appraise, implement, monitor, evaluate.	B06
96	Economic appraisal is the view of society (shadow prices); financial appraisal is the view of the owner (market prices).	B06
97	NPV: accept if positive. BCR: accept if above 1. IRR: the rate at which NPV is zero; accept if above the cost of capital.	B06
98	Payback period = years to recover the investment; it ignores the time value of money.	B06
99	DSCR = (PAT + depreciation + term-loan interest) / (term-loan instalment + interest); about 1.5 on average is a common comfort level.	B06
100	Break-even units = fixed costs / (price - variable cost per unit). Discount factor = 1 / (1 + r)^t.	B06

Module C: Priority sector and government initiatives

No.	Point to remember	Ch.
101	PSL targets are a percentage of ANBC or credit equivalent of off-balance-sheet exposure, whichever is higher.	C01
102	Commercial banks: total 40%; agriculture 18%; small and marginal farmers 10%; micro enterprises 7.5%; weaker sections 12%.	C01
103	RRBs: total PSL 75% of ANBC, weaker sections 15%. UCBs: 60%.	C01
104	Current rules: RBI PSL Directions, 2025, effective 1 April 2025.	C01
105	Marginal farmer: up to 1 ha. Small farmer: 1 to 2 ha.	C01
106	PSL shortfall is deposited in RIDF and other funds at low interest.	C01
107	PSLCs (since 2016): four types, traded on RBI e-Kuber, all expire on 31 March. Only the achievement moves, not the loan or risk.	C01
108	Education loans up to ₹25 lakh per student qualify as PSL.	C01
109	Renewable energy PSL: up to ₹35 crore per borrower; ₹10 lakh for individual households.	C01
110	The purpose of the loan (end use) decides PSL, not the location or the security.	C01
111	PMJJBY: join at 18-50; premium ₹436 a year; ₹2 lakh life cover.	C02
112	PMSBY: age 18-70; premium ₹20 a year; ₹2 lakh accident cover.	C02
113	Atal Pension Yojana: join at 18-40; pension ₹1,000 to ₹5,000 a month from age 60.	C02
114	PM-JAY: health cover ₹5 lakh per family per year; everyone aged 70+ covered from October 2024.	C02
115	National Food Security Act, 2013 covers up to 75% of rural and 50% of urban population.	C02
116	PMGKAY: free foodgrains to about 81 crore people, extended for five years from 1 January 2024.	C02
117	VB-G RAM G: 125 days of guaranteed wage work a year from 1 July 2026; old MGNREGA job cards stay valid until new cards are issued.	C02
118	PMAY-G beneficiaries come from SECC 2011 / Awaas+ lists verified by the Gram Sabha.	C03
119	PMAY-G assistance: ₹1.20 lakh in plains; ₹1.30 lakh in hill and NE states; minimum house size 25 sq m.	C03
120	PMAY-G extension: 2 crore more houses from 2024-25 to 2028-29.	C03

No.	Point to remember	Ch.
121	Housing loans as PSL: up to ₹35, 45 or 50 lakh depending on the population of the centre.	C03
122	SVAMITVA gives drone-mapped property cards for homes in inhabited rural areas.	C03
123	Education loan moratorium = course period + 1 year; repayment up to 15 years.	C03
124	CSIS: family income up to ₹4.5 lakh; full interest subsidy during the moratorium on loans up to ₹10 lakh.	C03
125	PM-Vidyalaxmi (November 2024): 3% interest subvention for family income up to ₹8 lakh; 75% guarantee on loans up to ₹7.5 lakh.	C03
126	Financial inclusion has three parts: access, usage and quality.	C04
127	PMJDY launched 28 August 2014; about 59 crore accounts by August 2026, most of them rural and semi-urban.	C04
128	PMJDY overdraft: up to ₹10,000 for eligible account holders.	C04
129	RBI FI-Index: 0 to 100 scale on access, usage and quality; it rose from 53.9 (2018) to 67 (2026).	C04
130	JAM = Jan Dhan, Aadhaar and Mobile.	C04
131	APBS credits benefits to the Aadhaar-mapped account; AePS lets the customer withdraw cash with Aadhaar at a BC point.	C04
132	Centres for Financial Literacy (CFL) work at block level.	C04
133	National cyber fraud helpline: 1930.	C04

Module D: Problems and prospects in rural banking

No.	Point to remember	Ch.
134	The rural financial needs are savings, credit, payments, risk cover and development support.	D01
135	SMA-0 = 1 to 30 days overdue; SMA-1 = 31 to 60; SMA-2 = 61 to 90.	D01
136	SHG loans are the best-performing rural segment: NPA 1.74% at 31 March 2025.	D01
137	BC cash planning matters most on wage, pension and benefit days.	D01
138	AgriStack (Ministry of Agriculture) has three registries: Farmer Registry, geo-referenced village maps, Crop Sown Registry.	D02
139	ULI (Unified Lending Interface) is built by RBI's Reserve Bank Innovation Hub. Do not confuse it with AgriStack.	D02
140	Digital Crop Survey records geo-tagged, plot-level crop data each season.	D02
141	RBI Kisan Credit Card Directions, 2026 were issued on 19 June 2026 and take effect on 1 January 2027.	D02
142	Microcredit = small loans; microfinance = savings, credit, insurance, remittance and pension for the poor.	D03
143	SHG-Bank Linkage Programme began as a NABARD pilot in 1992.	D03
144	SHG size: 10 to 20 members (5 in special groups such as persons with disabilities or remote tribal areas).	D03
145	Panchasutras: regular meetings, regular savings, internal lending, timely repayment, up-to-date books.	D03
146	SHG eligibility for a bank loan: active for at least 6 months, follows the Panchasutras, and passes grading.	D03
147	SHG term-loan doses: 1st at least 6 times corpus or ₹1.5 lakh; 2nd 8 times or ₹3 lakh; 3rd ₹6 lakh or more.	D03
148	DAY-NRLM SHGs: collateral-free loans up to ₹20 lakh; no margin up to ₹10 lakh; CGFMU guarantee cover.	D03
149	DAY-NRLM revolving fund: ₹20,000 to ₹30,000 per SHG.	D03
150	Joint Liability Group (NABARD scheme, 2006): 4 to 10 members, mutual guarantee, no prior savings needed.	D03

Check before use. Figures change. Where a scheme limit, target or count is revised after this book was printed, the official circular or scheme guideline prevails. For the exam, IIBF considers guidelines issued up to its published cut-off date for that sitting.

Quick revision

Remember	In one line
Most-asked areas	SHGs, KCC, PMFBY, wage employment, PMAY-G, PSL, Lead Bank, NABARD, MSME, appraisal ratios, insurance schemes.
Biggest recent changes	VB-G RAM G (125 days), RRBs 28, SFB PSL 60%, MSME limits 2025, collateral-free agri ₹2 lakh, CGTMSE ₹10 crore.
Trap to avoid	Supervision of RRBs is NABARD; regulation is RBI.

Practice with explanations

01. Who inspects Regional Rural Banks?

A. RBI	**B.** NABARD
C. Sponsor bank	**D.** State government

Answer B. RBI regulates RRBs; NABARD carries out their inspection.

02. What is the farmer's PMFBY premium for a rabi food crop?

A. 2%	**B.** 1.5%
C. 5%	**D.** 3%

Answer B. Kharif 2%, rabi 1.5%, commercial and horticulture 5%.

03. What is the PSL target for small and marginal farmers for a commercial bank?

A. 8%	**B.** 10%
C. 12%	**D.** 18%

Answer B. Under the 2025 Directions it is 10% of ANBC.

04. How many days of wage employment does the VB-G RAM G Act guarantee?

A. 100	**B.** 125
C. 150	**D.** 90

Answer B. It replaced MGNREGA (100 days) from 1 July 2026 with 125 days.

05. The first SHG loan dose is at least:

A. 4 times corpus or ₹1 lakh	**B.** 6 times corpus or ₹1.5 lakh
C. 8 times corpus or ₹3 lakh	**D.** 10 times corpus

Answer B. First dose: 6 times corpus or ₹1.5 lakh, whichever is higher.

Sources and dates used in this chapter

- Candidate-recalled topic lists: learningsessions.in (Rural Banking recollected questions 2023-24); Physics Wallah, CAIIB Rural Banking exam analysis, December 2025.
- IIBF, CAIIB Elective Rules and Syllabus 2026.
- NABARD financial results, 2025-26 (paid-up capital).
- Each point: the official sources listed at the end of the chapter shown in the last column.

Continue learning with Clerk2Officer

Revise the quick-revision tables, then attempt the practice questions again without looking at the answers.

Free JAIIB and CAIIB chapters, mock tests and banking updates: **www.clerk2officer.com**

Questions or corrections: **info@clerk2officer.com**

Clerk2Officer books are educational. They do not replace RBI directions, NABARD guidelines, Government scheme guidelines or your bank's own circulars. Figures are as of the dates stated in each chapter.