

## **Credit on Paper, Crisis in the Field**

*The Socio-Economic Impact of Priority Sector Lending on Rural Maharashtra*

### **Abstract**

Can a directed credit mandate, designed to uplift the most vulnerable, become a hollow administrative exercise when it reaches the farmer who needs it most?

Priority Sector Lending (PSL) has served as the backbone of India's rural financial structure for over five decades. In Maharashtra, a state that hosts one of India's most dynamic economies and its deepest agrarian crises simultaneously, the PSL framework is the primary institutional channel through which small farmers in Marathwada's rain-shadow districts, Vidarbha's cotton belt, and Konkan's hilly tracts access formal credit. When PSL functions as intended, it displaces predatory moneylenders, underwrites productive investment, and generates spillover benefits in health, education, and women's agency. When it fails, the consequences are measured not in percentages but in lives.

This article examines the socio-economic impact of PSL on rural Maharashtra across the dimensions of agricultural credit access, rural infrastructure, women's empowerment through Self-Help Groups, and the deficiencies that prevent the framework from delivering on its promise. The central question it raises is not whether PSL exists on paper, but whether it reaches the farmer in the field.

### **Introduction**

Credit is meant to empower, not exclude. Yet for thousands of farming families across Maharashtra, the formal credit system, which was designed to serve them, has remained out of reach. The PSL framework, formalised by the Reserve Bank of India in 1972, mandates scheduled commercial banks to direct a stipulated share of their lending to agriculture, micro-enterprises, housing, education, and weaker sections of society. Its objective is to ensure that those least capable of accessing market-priced capital are not excluded from the country's formal financial architecture.

For rural Maharashtra, this is not a theoretical concern. The state records the highest number of farmer suicides in India year after year. Maharashtra accounted for the largest share of the 4,690 farmer and cultivator suicides recorded at the national level by National Crime Records Bureau in 2023. Behind each of these tragedies lies a familiar story where a crop loan denied, a moneylender approached at 60 to 120 per cent annual interest, a debt trap that left no way out.

The gap between PSL's stated purpose and its ground-level delivery in Maharashtra's most distressed regions is the central concern of this article. The debate has moved beyond banking regulation. It has entered the domain of social justice, agrarian policy, and the rights of citizens who depend on the state's institutional machinery for their economic survival.

*Should a regulatory target on paper substitute for credit in a farmer's hand?*

### **The Regulatory Framework and Its Gaps**

The PSL framework requires domestic scheduled commercial banks to allocate 40 per cent of their Adjusted Net Bank Credit to priority sectors. Agriculture commands a sub-target of 18 per cent, with

10 per cent reserved for small and marginal farmers, the very cultivators who constitute the majority of Maharashtra's rural workforce. Banks that fall short are required to deposit the deficit into the Rural Infrastructure Development Fund administered by NABARD, ensuring that even undeployed PSL funds find a developmental application.

The 2025 Master Directions introduced a significant differential weightage mechanism. In this system, incremental PSL credit is given in districts with per capita PSL below Rs 9,000, which is credited at 125 per cent weightage, while over-served districts receive only 90 per cent credit. For Maharashtra, with its pronounced intra-state disparities between well-banked Western Maharashtra and underserved Vidarbha and Marathwada, this is a welcome reform. Whether it translates into meaningful redistribution depends, however, on the rigour of monitoring and enforcement, which is a question that institutional history in these regions invites caution rather than confidence.

A documented tendency of banks to fulfil PSL targets through lower-risk commercial sub-categories, most notably MSME lending and housing finance, compounds the problem. Credit generated against urban MSME exposure in Pune or Nashik does not compensate a marginal farmer in Yavatmal who lacks access to a functioning crop loan facility. Structural substitution within PSL compliance portfolios is not an incidental flaw; it is a systemic failure that demands targeted regulatory correction.

Possible reforms include:

- District-specific sub-targets for agricultural lending that prevent statewide aggregation from masking underperformance
- Proportionally higher RIDF contributions for banks that underserve distress-prone regions
- Mandatory reporting on geographic substitution within PSL portfolios
- Streamlined documentation requirements for small and marginal farmers

Such measures do not weaken the credit system. Rather, it strengthens its integrity by ensuring that its objectives match its actual outcomes.

### **The Human Cost of Undelivered Credit**

For a farmer in Vidarbha, the failure of PSL delivery is not an administrative shortfall. It is an existential crisis.

The empirical record is stark. In 2017-18, statewide crop loan disbursement collapsed to 47 per cent of the annual target, with Marathwada and Vidarbha falling to 30 and 37 per cent, respectively. The proximate cause was the incomplete implementation of a state farm loan waiver scheme, which rendered thousands of farmers technically ineligible for fresh crop loans despite having no history of wilful default. Farmers with outstanding dues as modest as Rs 28,000 were denied working capital for the next season. When left without formal credit, they returned to the only available source, that is, the private moneylender charging 60 to 120 per cent annual interest, compared to the effective 4 per cent available under the Kisan Credit Card scheme for prompt repayors.

This structure of debt dependency persists because PSL delivery has been insufficient in the regions of greatest need. The absence of formal credit both reflects and reinforces rural marginalisation, creating a vicious circle that administrative targets alone cannot break. Being excluded from formal credit not only affects a farmer's income but also their children's education, family's health decisions,

and ultimately their sense of worth and dignity within a system that was built, in principle, to serve them.

### **A Genuine Achievement: Women, SHGs, and Social Transformation**

The most consequential socio-economic contribution of PSL in rural Maharashtra has been the financing of Self-Help Groups under the SHG-Bank Linkage Programme, introduced by NABARD in 1992. The programme directs PSL-classified credit through NGOs and cooperative societies to informal groups of rural women, bypassing the collateral requirements that routinely exclude individual women from formal finance.

Research with SHG members in Osmanabad district found a notably positive impact of microfinance on women's social, economic, and psychological empowerment. Women who accessed bank-linked SHG credit reported measurable increases in financial independence, greater participation in household decision-making, stronger social networks, and improved confidence. The state-sponsored Mahila Arthik Vikas Mahamandal has been a particularly significant institutional vehicle in Marathwada and Vidarbha, delivering bank-linked credit to women in districts where informal moneylenders had historically held undisputed dominance.

The SHG-Bank Linkage Programme reached 17.8 crore rural households nationally by March 2024. In rural Maharashtra, women's public participation has been constrained by caste hierarchies and patriarchal norms. The expansion of financial agency through SHG membership represents a form of social capital formation whose value far exceeds what any credit ledger could capture. A system that serves its most excluded members is not merely performing a regulatory function. It is fulfilling a social contract.

### **Conclusion**

The debate over PSL's effectiveness in rural Maharashtra reminds us that a credit mandate is only as meaningful as its last-mile delivery. A framework that directs hundreds of crores in aggregate but fails to reach the rain-fed cotton farmer in Yavatmal or the smallholder in Dharashiv has not fulfilled its purpose; it has merely satisfied a bureaucratic metric.

PSL's achievements are real. NABARD's RIDF-financed infrastructure has built irrigation capacity, rural roads, and market connectivity across Maharashtra. The SHG-Bank Linkage Programme has generated genuine social transformation. The 2025 Master Directions represent a thoughtful modernisation of a five-decade-old framework. These are not trivial accomplishments.

Yet the persistence of agrarian distress in Vidarbha and Marathwada, the recurring crop loan disbursement shortfalls, and the continued dominance of informal moneylenders in credit-scarce districts collectively point to the limits of PSL as currently configured. Allowing geographic substitution within compliance portfolios, tolerating administrative barriers that exclude the smallest farmers, and permitting loan-waiver politics to damage repayment culture are not incidental imperfections. They are structural features that require deliberate policy correction.

***Priority Sector Lending is a necessary condition for inclusive rural development in Maharashtra. Standing alone, without enforcement rigour, complementary infrastructure, and genuine last-mile delivery, it remains insufficient. A credit policy that exists on paper but not in practice does not serve the farmer. It serves only the appearance of serving the farmer.***



For a state that produces both extraordinary wealth and extraordinary agrarian suffering, the real question is not whether PSL targets are met in aggregate, but whether the farmer who needs it most can access credit when the crop season begins.

