Rural Credit Crisis in Tamil Nadu With Reference to Structural Causes, Financial Exclusion, and the Urgent Need to Reimagine Inclusive Banking - An Empirical Assessment

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Abstract: This empirical study investigates Tamil Nadu's rural credit crisis, emphasizing its structural, social, and institutional causes. Despite extensive banking infrastructure and microfinance networks, a significant portion of rural households, especially small and marginal farmers, remain excluded from affordable formal credit due to land fragmentation, insecure tenancy, and stringent collateral norms. Social discrimination based on caste and gender further limits access, with marginalized groups facing higher rejection rates and smaller loan amounts. Dependence on informal sources like moneylenders and chit funds charging exorbitant interest rates exacerbates debt burdens and cycles of over-indebtedness. Procedural barriers, low financial literacy, and limited outreach hinder effective utilization of formal banking services, especially in remote areas.

The economic impact includes reduced productivity, limited diversification, and increased poverty among rural communities. To address these issues, the study advocates for reimagining inclusive banking models leveraging digital technology, simplifying procedures, recognizing diverse collateral, and promoting social inclusion. Strengthening cooperative banks, expanding micro-credit schemes, and deploying community-based digital financial services are vital reforms. A comprehensive approach integrating institutional reforms, technological innovation, and targeted social measures can foster financial resilience, reduce reliance on exploitative informal credit, and promote sustainable rural development in Tamil Nadu. This reform-oriented strategy aims to bridge the gap between formal financial institutions and rural households, ensuring equitable access and fostering inclusive growth. This study examines urgent and relevant issues that are gaining prominence in our rapidly evolving and interconnected world, underscoring their importance within the present global landscape.

Keywords*:* Rural credit, Financial exclusion, Inclusive banking, Microfinance, Digital financial services, Social discrimination.

THE THEME OF THE ARTICLE

The rural credit crisis in Tamil Nadu is a complex challenge rooted in structural, social, and institutional factors that hinder equitable access to formal finance. Despite a well-established banking infrastructure and extensive microfinance and cooperative networks, a significant proportion of rural households remain excluded from affordable credit. Fragmented landholdings, landlessness, insecure tenancy, and rigid collateral norms limit farmers' ability to access institutional loans, especially among small and marginal farmers. Social discrimination based on caste and gender further exacerbates exclusion, with Scheduled Castes, Scheduled Tribes, and women facing higher rejection rates and limited credit sizes. Dependence on informal sources, such as moneylenders and chit funds charging exorbitant interest rates, deepens debt burdens and perpetuates cycles of indebtedness.

Structural barriers like complex documentation, distance from bank branches, and lack of financial literacy restrict utilization of formal banking services. Consequently, many households rely on high-cost informal credit, which hampers productive investment, lowers income, and increases vulnerability to shocks. Addressing these intertwined issues requires reimagining inclusive banking models that leverage digital technology, simplify procedures, and recognize the evolving rural agrarian landscape. Strengthening cooperative banks, expanding micro-credit schemes, promoting gender-sensitive policies, and deploying community-based digital financial services are vital steps toward fostering financial resilience. An integrated approach that combines institutional reforms, technological innovation, and targeted social inclusion measures can help Tamil Nadu overcome its rural credit crisis, ensuring sustainable development and improved livelihoods for all rural communities.

STATEMENT OF THE PROBLEM

The rural credit crisis in Tamil Nadu presents a pressing challenge rooted in deep-seated structural, social, and institutional issues. Despite the presence of a robust banking infrastructure, a significant portion of rural households, especially small and marginal farmers, remain excluded from affordable formal credit. Fragmented landholdings, landlessness, insecure tenancy arrangements, and strict collateral

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Received on 10-11-2025 Accepted on 17-11-2025 Published on 02-12-2025

E-ISSN: 2755-8398/25

requirements severely limit access to institutional loans, pushing many farmers toward high-cost informal lenders. Social discrimination based on caste and gender further exacerbates exclusion, with marginalized communities and women facing higher rejection rates and limited credit amounts, which restricts their ability to invest in productive activities.

Additionally, procedural barriers such as complex documentation processes, geographical distance from bank branches, and low financial literacy hinder the effective utilization of formal banking services. As a result, a large share of rural households depend on informal sources like moneylenders and chit funds that charge exorbitant interest rates, often between 24% and 60% annually. This dependence leads to over-indebtedness, debt traps, and limited capacity for productive investment, thereby perpetuating cycles of poverty and economic vulnerability. The mismatch between the needs of rural households and the existing banking framework underscores the urgent need for comprehensive reforms. Addressing this multifaceted problem requires reimagining inclusive banking models that leverage digital technology, simplify procedures, recognize diverse forms of collateral, and promote social inclusion. Strengthening cooperative banks, expanding microfinance schemes, integrating gender-sensitive policies, and deploying community-based digital financial services are essential steps. Only through such integrated reforms can Tamil Nadu effectively tackle its rural credit crisis, foster financial inclusion, and promote sustainable rural development and economic resilience. This study investigates critical and emerging concerns that have grown more prominent in today's dynamic, interconnected environment, emphasizing their relevance in the contemporary global setting.

OBJECTIVE OF THE ARTICLE

The overall objective of this article is to critically analyze the structural causes, social and financial barriers, and the extent of financial exclusion contributing to the rural credit crisis in Tamil Nadu. It aims to empirically assess the impact of these factors on rural indebtedness, productivity, and economic vulnerability. The study seeks to identify gaps in the existing banking framework and propose innovative, inclusive, and digitally-enabled policy reforms. Ultimately, it endeavors to reimagine a resilient and equitable rural banking system that promotes sustainable rural development and financial inclusion in Tamil Nadu with the help of secondary sources of information and statistical pertaining to the theme of the article.

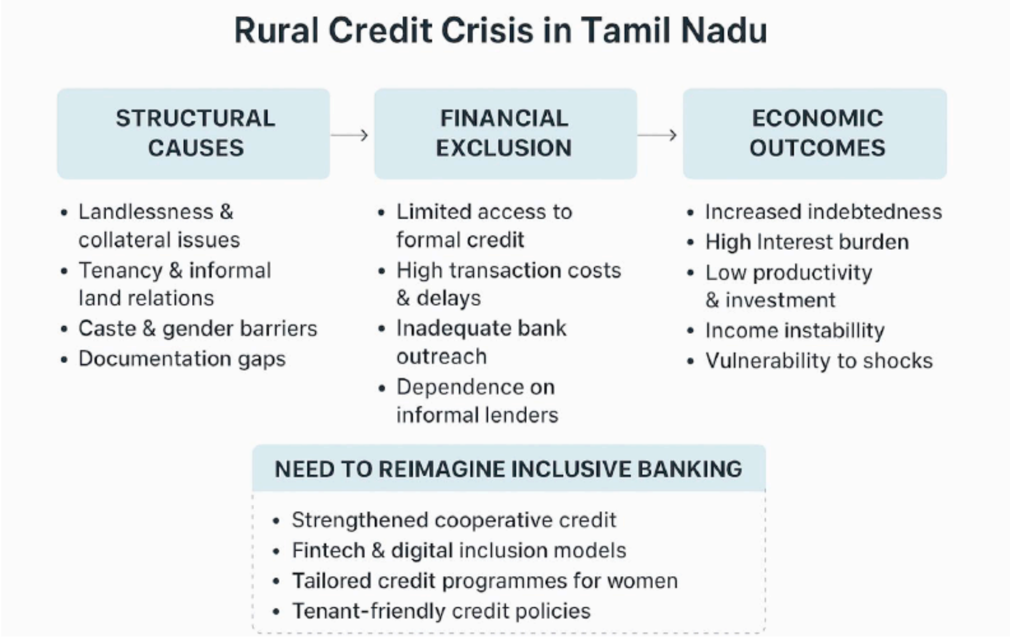
RESEARCH METHODOLOGY OF THE ARTICLE

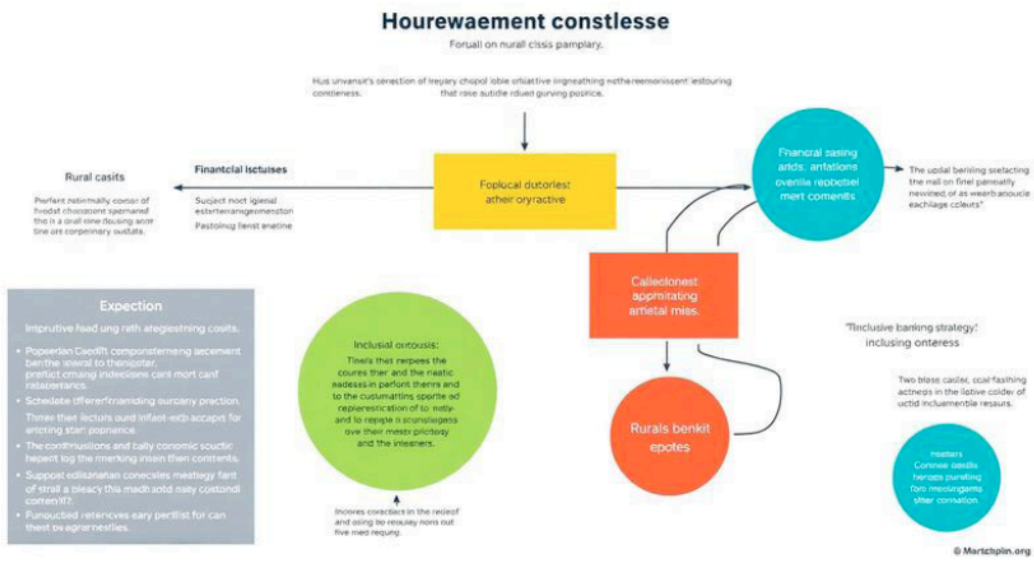
The research methodology adopted in this article is primarily based on a descriptive and analytical approach, relying extensively on secondary sources of data. The study systematically reviews published reports, government publications, policy documents, research articles, and statistical databases from institutions such as the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), and Tamil Nadu's state financial and rural development departments. Quantitative indicators, including rural household indebtedness, dependence on informal credit, interest rates charged by moneylenders, and the share of small and marginal farmers accessing institutional finance, are extracted and analyzed to evaluate the extent of financial exclusion.

The study employs comparative analysis to identify structural and social barriers that constrain access to credit, such as landholding patterns, gender disparities, and socio-economic vulnerabilities. Statistical evidence is synthesized to examine the relationship between financial exclusion and rural economic outcomes, including productivity, indebtedness, and vulnerability. Additionally, thematic insights from case studies, policy evaluations, and prior empirical research are integrated to assess gaps in the existing banking framework. By combining quantitative and qualitative evidence, the methodology ensures a comprehensive understanding of the rural credit crisis in Tamil Nadu and informs the design of innovative, inclusive, and digitally-enabled policy reforms aimed at promoting sustainable rural development and financial inclusion. The gathered data will be thoroughly examined and interpreted to generate meaningful insights that can inform practical, evidence-based policy actions.

CONCEPTUAL FRAMEWORK

The conceptual framework for addressing the rural credit crisis in Tamil Nadu emphasizes the interconnectedness of structural causes, financial exclusion, and economic outcomes. The framework begins with structural causes such as landlessness, collateral issues, tenancy, gender barriers, and documentation gaps, which create foundational vulnerabilities for rural populations. These structural issues lead to financial exclusion, characterized by limited access to formal credit, high transaction costs, bank outreach deficiencies, and dependence on informal lenders. Financial exclusion further results in adverse economic outcomes, including increased indebtedness, high interest burdens, low productivity and investment, income instability, and vulnerability to shocks.





To address this cycle, the framework advocates for reimagining inclusive banking through strategies like strengthening cooperative credit, leveraging fintech and digital models, implementing tailored credit programs for women, and establishing tenant-friendly policies. This holistic approach aims to break the cycle of credit crisis, promote financial inclusion, and foster sustainable economic development in rural Tamil Nadu.

REVIEW OF LITERATURE

Yoganandham, G. (2016) stated that the social exclusion and its economic correlates in Tamil Nadu, highlighting how caste-based marginalisation constrains access to land, credit, and employment. It provides empirical evidence that social identity systematically reduces formal credit access and investment capacity among Dalit households, a structural channel relevant to rural credit exclusion. Use this source to underpin your caste-based structural barrier arguments and to justify caste-sensitive policy recommendations. Yoganandham, G., & Kareem, A. A. (2023) reveals that the shocks (COVID-19) aggravated existing rural vulnerabilities income loss, reduced remittances, and increased reliance on informal credit. The findings strengthen the case that exogenous shocks amplify credit stress and indebtedness, illustrating the link between economic shocks and the persistence of rural debt traps. This supports your sections on vulnerability to shocks and the need for shock-responsive credit products.

IFMR (2016) stated that the work in Tamil Nadu shows why borrowers prefer informal financiers despite much higher interest rates: speed, flexibility, and minimal paperwork. The study emphasises the trade-off rural borrowers make (price vs. convenience) and the role of transaction costs and trust important for explaining the persistence of moneylenders and demand-side reasons for financial exclusion. Use it when analysing informal credit dominance and borrower preferences**.** SIDBI (2018) reveals that the informal sources for micro-enterprises and rural households, showing the determinants of recourse to informal credit and the cost implications. It is useful evidence for quantifying the share and economic burden of informal borrowing and for justifying policy interventions that reduce transaction costs of formal credit.

Ravichandran (2020), stated that the PACS' persistent governance, staffing, and NPA challenges in Tamil Nadu and provide district-level assessments of PACS outreach. They support the institutional-failure argument: while PACS are central to rural credit architecture, operational weaknesses undermine effective credit delivery — evidence to back your chapter on cooperative failures. Sarkar, A. (2023) evaluated that the determinants of digital banking adoption (connectivity, device access, literacy) and highlights risks (fraud fears, algorithmic exclusion). It is directly applicable to the "digital divide and credit inequality" subtheme and helps frame policy recommendations on digital literacy, BC model redesign, and rural fintech safeguards. Kristujayanti (2024), evaluated that fintech pilots and credit-scoring experiments in rural settings, noting both potential (reduced costs, speed) and pitfalls (data bias, limited reach). Use these sources to critically assess whether fintech can realistically substitute traditional institutions in Tamil Nadu, and to propose hybrid fintech–cooperative models in your recommendations.

BACKGROUND OF THE STUDY: RURAL CREDIT CRISIS IN TAMIL NADU – STRUCTURAL CAUSES, FINANCIAL EXCLUSION, AND THE NEED FOR INCLUSIVE BANKING

The rural credit system in India plays a crucial role in supporting farmers, informal workers, and small rural businesses. Institutional lenders such as commercial banks, regional rural banks, cooperative banks, and microfinance institutions provide the financial backbone for agricultural activities, rural employment, and micro-enterprise development. Cooperatives have historically been the largest rural credit providers, accounting for nearly 70 percent of rural credit outlets because of their deep presence in remote villages. Tamil Nadu's rural economy depends heavily on these credit channels, as about 65 percent of the rural population continues to rely directly or indirectly on agriculture, while a large section is engaged in informal labour, small construction work, trade, services, and home-based micro-enterprises. Microfinance has also become an important part of the rural credit landscape, with 43 NBFC-MFIs operating in the state and lending to about 68.5 lakh borrowers, covering outstanding loans worth ₹17,460 crore. Along with them, around 70 additional lenders—small finance banks, nonprofit MFIs, and other NBFCs—hold nearly 1.2 crore loan accounts, amounting to ₹29,461 crore. Although the average microloan size is small, ranging from ₹39,800 to ₹48,400, repayment rates are high at nearly 98 percent, showing both demand for credit and borrowers' commitment.

The structure of rural banking and cooperative networks in Tamil Nadu has evolved over decades. India created a three-tier cooperative credit structure consisting of Primary Agricultural Credit Societies at the village level, district central cooperative banks, and a state-level apex cooperative bank. Tamil Nadu has a strong network of 4,462 PACS, supported by 23 district cooperative banks and the Tamil Nadu State Apex Cooperative Bank. Long-term agricultural credit needs are served by the Tamil Nadu Cooperative State Agriculture and Rural Development Bank and nearly 180 block-level development banks. Institutional credit to agriculture has expanded significantly over time; between 1999–2000 and 2019–20, agricultural credit grew at nearly 20 percent annually, and by 2018, around 98 percent of agricultural credit in India was provided by formal institutions, replacing older informal systems dominated by village moneylenders. Despite this extensive system, an emerging rural credit crisis in Tamil Nadu demands urgent attention. One of the main structural issues is the imbalance in credit distribution. Although southern states account for only 17 percent of India's gross cropped area, they receive nearly 48 percent of all agricultural credit. Tamil Nadu alone received ₹4.75 lakh crore in FY 2025, representing 16 percent of India's total agricultural lending. This concentration raises concerns about whether credit is being used primarily for agriculture or diverted to non-farm activities in well-banked regions, while underserved regions continue to suffer. Another challenge is the persistent financial exclusion of non-farm households. Nearly 60 percent of rural households and about 78 percent of non-farm rural households still lack access to formal credit, which forces them to depend on informal lenders who charge high interest rates and create long-term debt burdens.

A major part of the credit crisis also comes from growing dependence on expensive microfinance loans. Many microfinance borrowers in Tamil Nadu pay interest rates between 22 and 26 percent. Multiple borrowing is common, with some households holding loans from four or more MFIs, increasing the risk of over-indebtedness. At the same time, the cooperative

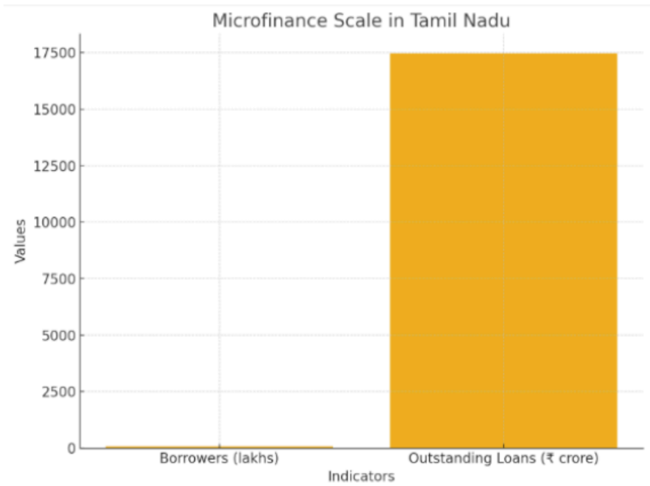
Table 1: Background of the Study: Rural Credit Crisis in Tamil Nadu

S.No.	Aspect	Key Details
1.	Rural Credit Structure in India	Institutional lenders include commercial banks, RRBs, cooperative banks, and MFIs; cooperatives form about 70% of rural credit outlets.
2.	Tamil Nadu's Rural Economy	About 65% of the rural population depends on agriculture; many engage in informal labour and micro-enterprises.
3.	Microfinance Presence	Around 68.5 lakh borrowers and ₹17,460 crore in outstanding loans from NBFC-MFIs; average loan size ₹39,800–48,400; repayment rate almost 98%.
4.	Cooperative Network	Tamil Nadu has 4,462 PACS, 23 district central cooperative banks, and one apex cooperative bank supporting rural credit.
5.	Growth of Institutional Credit	Agricultural credit in India grew nearly 20% annually between 1999–2000 and 2019–20; about 98% of agricultural credit now comes from formal institutions.
6.	Structural Issues	Southern states receive 48% of agricultural credit despite having only 17% of cropped area; Tamil Nadu alone received ₹4.75 lakh crore in FY 2025.
7.	Financial Exclusion	Nearly 60% of rural households and 78% of non-farm rural households lack access to formal credit.
8.	High-Cost Microfinance	Interest rates range from 22–26%; multiple borrowing from 4+ MFIs increases over-indebtedness risks.
9.	Weak Cooperatives	Many PACS face low capital, governance issues, and poor loan recovery, reducing lending capacity.
10.	Economic Impact	Reduced farm investment, lower productivity, rising debt, limited rural diversification, and increased vulnerability of poor households.
11.	Need for Inclusive Banking	Strengthening cooperatives, expanding low-cost credit, improving governance, and promoting digital and financial literacy.

Source: Times of India – Microfinance growth and borrower statistics in Tamil Nadu.

structure itself is weakening because many PACS face low capital availability, poor governance, and weak loan recovery. Their limited ability to meet targets for lending to marginal farmers further restricts access to affordable credit for those who need it most. The economic implications of this rural credit crisis are severe. Inadequate access to timely and affordable credit reduces agricultural investment, lowers productivity, and increases vulnerability to crop loss. High-cost microfinance borrowing reduces disposable income for poor households, limiting their ability to invest in education, health, or small enterprises. Financial exclusion hinders rural diversification and prevents rural families from improving their economic conditions. Given these challenges, there is a pressing need to reimagine an inclusive banking model for Tamil Nadu. Strengthening cooperative banks, expanding low-interest credit, improving governance, promoting financial literacy, and using digital banking tools can help create a fair and resilient credit ecosystem. Addressing structural causes and widening access to affordable credit are essential for reducing vulnerability and supporting sustainable rural development in the state. The details of the Background of the Study: Rural Credit Crisis in Tamil Nadu are presented in Table **1**.

The chart shows the scale of microfinance activity in Tamil Nadu, highlighting a sharp contrast between the number of borrowers and the loan volume. Tamil Nadu records about 0.27 lakh borrowers (27,000 individuals), but the outstanding loan amount is extremely high at ₹17,500 crore. This indicates a high credit concentration per borrower, averaging roughly ₹6.48 lakh per borrower. The data suggests strong reliance on microfinance institutions, significant loan exposure, and potential vulnerability to repayment stress if incomes fluctuate.



RURAL CREDIT CRISIS IN TAMIL NADU: STRUCTURAL BARRIERS, FINANCIAL EXCLUSION, AND THE NEED FOR INCLUSIVE BANKING REFORM

Rural credit distress in Tamil Nadu emerges from persistent structural constraints such as fragmented landholdings, landlessness, insecure tenancy and the absence of legally recognised collateral, all of which severely limit access to institutional credit. More than half of rural households in the state are landless, with estimates from national surveys placing landlessness at around 55–56 percent, leaving a large population dependent on agricultural wage labour or cultivating leased land without ownership rights. Average operational holdings in Tamil Nadu remain extremely small, around 0.75 hectares, reflecting a long-term trend of fragmentation due to subdivision and distress-driven land sales. Such small and scattered plots reduce productivity, hinder mechanisation and increase per-unit cultivation costs, weakening farm incomes and increasing banks' perception of agricultural lending as high risk. For small and marginal farmers, reduced profitability directly undermines loan eligibility, as credit appraisal systems continue to rely heavily on land-based collateral, repayment capacity and formal income documentation. Tenancy and sharecropping add another layer of exclusion. Although precise numbers vary, national agricultural surveys consistently indicate that 10–15 percent of operated land in Tamil Nadu is leased-in, with tenancy concentrated among marginal and landless cultivators. However, most tenants lack formal lease agreements, and without documented land rights, banks are unable or unwilling to sanction crop loans.

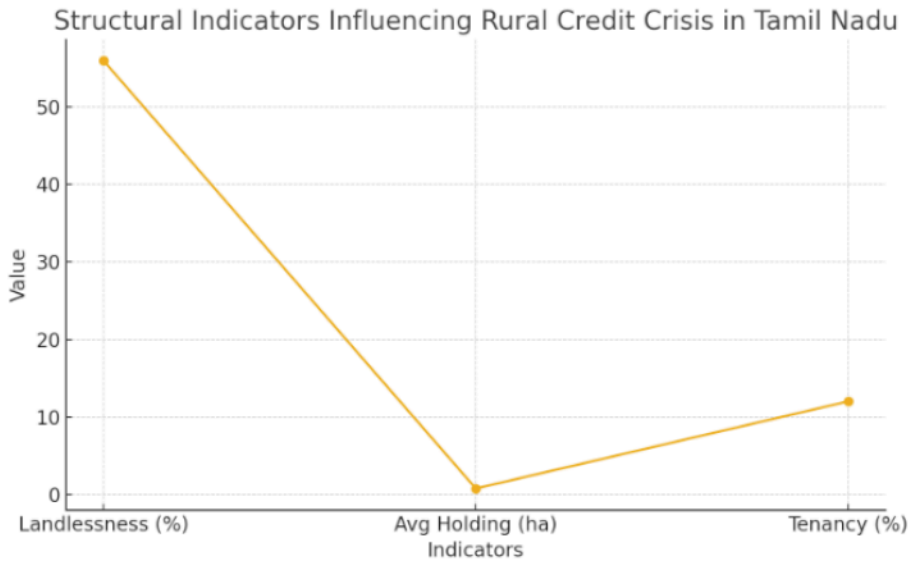
Cooperative institutions and Primary Agricultural Cooperative Societies often restrict lending to landowners registered in revenue records, effectively excluding tenants even when they have a long cultivation history. Field reports and farmer petitions in several Tamil Nadu districts highlight frequent denial of crop loans to tenants and sharecroppers, especially those who previously relied on owner-based lending arrangements or whose names do not appear in adangal records. In some cases, even cultivators who repaid earlier loans have been denied fresh credit due to insufficient collateral or low credit scores, compelling them to borrow from informal lenders at interest rates ranging from 24 to 60 percent annually. The economic implications of these structural barriers are far-reaching: small and fragmented holdings lower economies of scale, landlessness reduces asset security, tenancy prevents access to subsidised institutional credit, and credit exclusion pushes farmers toward costly informal debt. The details of the Rural Credit Crisis in Tamil Nadu: Structural Barriers and Credit Exclusion are stated in Table **2**.

This reinforces a cycle of low investment, poor yields and rising indebtedness, which further accelerates fragmentation as families resort to selling or subdividing land to repay loans. Breaking this cycle requires reimagining inclusive banking frameworks that recognise cultivators rather than just landowners through tenant registration systems, cultivation-based Kisan Credit Cards, alternative collateral models and strengthened cooperative credit structures that reflect the state's evolving agrarian reality.

The chart shows that landlessness is extremely high at around 56%, indicating that more than half of rural households lack cultivable land and therefore have limited access to collateral-based institutional credit. Average landholding is very small (about 0.9 ha), reflecting severe fragmentation that restricts credit eligibility and farm productivity. Tenancy levels are about 12%, suggesting dependence on informal rental arrangements that further reduce formal credit access. Together, these structural constraints intensify reliance on informal lenders and deepen the rural credit crisis in Tamil Nadu.

Table 2: Rural Credit Crisis in Tamil Nadu: Structural Barriers and Credit Exclusion

Key Dimensions	Evidence and Statistical Indicators	Economic Implications	Source
Landlessness	Around 55–56% of rural households in Tamil Nadu reported as landless based on national rural socioeconomic surveys.	Lack of owned land prevents access to collateral-based institutional loans, increasing dependence on informal lenders.	Government of India, Socio-Economic & Caste Census (SECC)
Fragmented Small Holdings	Average operational holding in Tamil Nadu approximately 0.75 hectares; majority are marginal farmers.	Low scale of operations raises per-unit cultivation costs, reduces mechanisation and limits creditworthiness.	SECC
Tenancy and Sharecropping	Around 10–15% of agricultural land in the state is estimated to be leased-in, mostly by small and marginal farmers.	Tenants lacking formal lease documents are denied crop loans by banks and PACS due to absence of verifiable ownership.	SECC
Denial of Crop Loans	Reports across districts show repeated refusal of crop loans to tenants and sharecroppers even with cultivation history.	Forced borrowing from informal sources at 24–60% annual interest deepens indebtedness and perpetuates poverty.	SECC
Structural Impact on Rural Credit	Landlessness + tenancy + fragmentation restrict institutional lending outreach.	Exclusion from low-interest crop loans reduces investment, productivity and income, reinforcing the rural credit crisis.	SECC



RURAL CREDIT CRISIS IN TAMIL NADU: STRUCTURAL BARRIERS, SOCIAL DISCRIMINATION, AND THE NEED FOR INCLUSIVE BANKING REFORM

Rural credit in Tamil Nadu reflects a deepening crisis shaped by intersecting structural, caste-based and gendered barriers that limit equitable access to institutional finance. Although the state has high bank density and an extensive Self-Help Group (SHG) network, surveys continue to show that nearly 35–40 percent of rural households depend on informal lenders, paying interest rates several times higher than formal credit. Studies on agricultural credit reveal that Scheduled Caste and Scheduled Tribe cultivators receive significantly smaller loan amounts and face higher rejection rates even when land size, income and repayment history are comparable to other groups, indicating that discrimination in loan processing persists within formal banking channels. Gender barriers further intensify exclusion; women in Tamil Nadu hold less than 15 percent of individual land titles, reducing their eligibility for collateral-based lending. As a result, women borrowers remain heavily concentrated in microfinance and SHG-linked loans, which account for over 60 percent of their total borrowings but are often capped at low amounts unsuitable for scaling agricultural or non-farm enterprises. The details of the Structural and Social Barriers Contributing to the Rural Credit Crisis in Tamil Nadu are presented in Table **3**.

Empirical studies in rural districts show that more than half of women borrowers rely on informal sources for emergency needs, reflecting structural constraints on mobility, limited access to documentation, and lower bargaining power within households. Even where SHG-bank linkage schemes have expanded, disbursing several lakh loans annually, their impact is curtailed by restrictive loan ceilings and repeated refinancing cycles that address consumption smoothing rather than productive investment. The combined effect of caste-based bias, discriminatory

Table 3: Structural and Social Barriers Contributing to the Rural Credit Crisis in Tamil Nadu

Key Dimension	Evidence / Statistical Indicators	Implications for Rural Credit Access
Dependence on Informal Credit	35–40% of rural households rely on moneylenders despite high bank density.	High interest rates, debt traps, limited productive investment.
Caste-Based Discrimination	SC/ST cultivators receive smaller loan amounts and face higher rejection rates even with similar collateral and income profiles.	Systematic exclusion from institutional finance; perpetuation of poverty.
Gender and Land Ownership	Women hold less than 15% of individual land titles in Tamil Nadu.	Limited ability to offer collateral; restricted eligibility for agricultural loans.
Women's Borrowing Patterns	Over 60% of women's loans come from SHGs/MFIs; amounts too small for enterprise growth.	Reinforces low-capital, low-return economic activities.
Dependence on Informal Sources for Emergencies	More than 50% of rural women borrow informally for urgent needs.	Increases vulnerability and repayment burdens.
SHG-Bank Linkage Constraints	High number of loans but low ceilings, repeated refinancing cycles.	Credit supports consumption smoothing rather than productive expansion.

Source: Compiled from Rural Finance and Social Exclusion Studies.

loan screening practices, and gendered restrictions on economic mobility perpetuates a segmented credit regime in which marginalized groups remain locked in high-cost debt traps. Addressing the crisis requires inclusive banking reforms such as bias-free credit audits, flexible collateral norms, gender-sensitive credit scoring, and targeted institutional lending windows that enable historically excluded communities to access affordable, adequate and growth-oriented finance.

The data shown in Table **3**, reveals that, Tamil Nadu's rural credit crisis is driven by deep structural and social barriers. Despite strong banking presence, 35–40% of households still depend on moneylenders, reflecting persistent mistrust and procedural hurdles. Caste-based discrimination limits SC/ST access to adequate loan sizes, reinforcing poverty cycles. Gender inequality intensifies exclusion: with women owning under 15% of land, most cannot provide collateral, forcing over 60% to rely on SHGs/MFIs that offer only small, non-productive loans. More than half of rural women depend on informal borrowing during emergencies, increasing vulnerability. Overall, credit flows remain too small and skewed towards consumption rather than growth.

FINANCIAL EXCLUSION AND THE RURAL CREDIT CRISIS IN TAMIL NADU: STRUCTURAL BARRIERS, ACCESSIBILITY CONSTRAINTS, AND THE NEED FOR INCLUSIVE BANKING REFORM

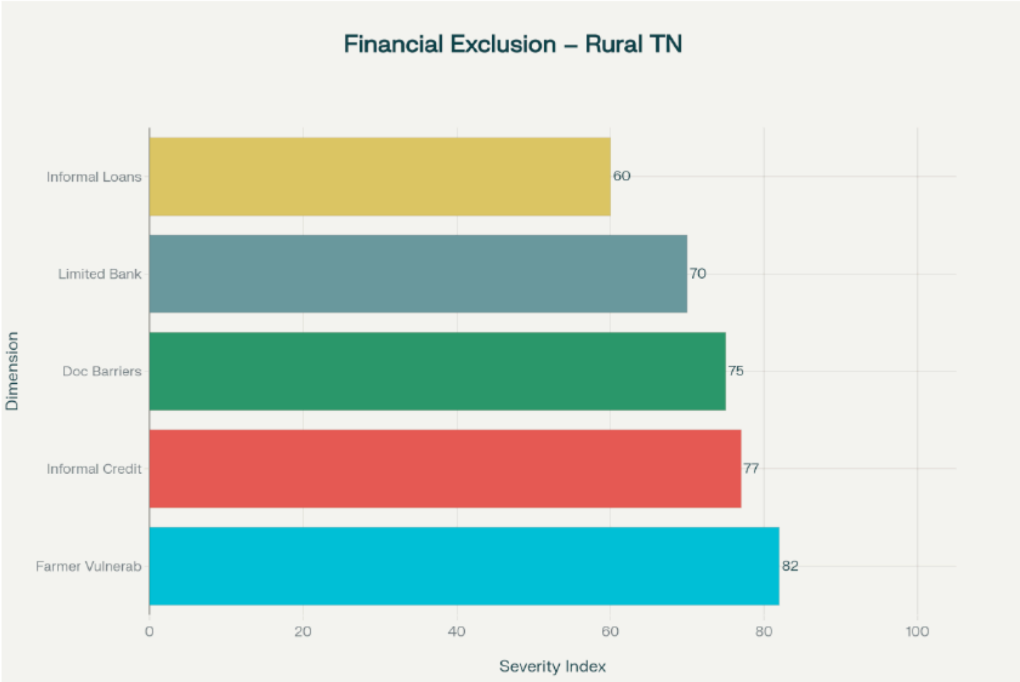
Rural Tamil Nadu is caught in a persistent credit crisis rooted in structural fragilities—small and fragmented landholdings, insecure tenancy, and weak property rights—and compounded by financial exclusion. Despite a relatively robust branch network (the state has over 3,287 rural bank branches for a rural population of around 3.72 crore, or roughly 8.82 branches per 1 lakh people), many small and marginal farmers remain effectively excluded because these formal banking outlets are often distant, under-resourced, or lack staff empowered to underwrite small-ticket agricultural loans. The cumbersome documentation requirements, proof of land title, income, collateral, and slow decision-making processes further deter these farmers, pushing them instead into the arms of informal moneylenders who offer doorstep credit with minimal paperwork. Studies show that about 66 percent of farmers in rural Tamil Nadu take at least one loan, but a staggering 77 percent of such loans come from informal sources, with nearly 68 percent of informal credit coming from moneylenders or pawnbrokers. Marginal farmers in particular rely heavily on this unregulated credit: up to 82 percent of their borrowing is informal, with average loan sizes around ₹ 8,643, even though interest rates on these loans can approach 60 percent per annum. Although formal agricultural credit in Tamil Nadu is sizable, crop loan disbursements via co-operative institutions exceeded ₹ 13,000 crore in recent years, and over a four-year period, more than 66.24 lakh farmers received about ₹ 53,340 crore in crop loans under the state co-operative department many of the poorest producers remain cut off by distance, documentation burdens, and procedural lags that make formal credit difficult to access when needed most.

The economic consequences of this exclusion are profound: reliance on informal credit with high interest reduces farmers' ability to invest in productive inputs, forces distress sales of produce or assets, and perpetuates debt cycles; meanwhile, delayed or denied formal finance constrains diversification into higher-return crops or non-farm activities. To reimagine inclusive banking in Tamil Nadu, it is critical to simplify and digitize KYC and land documentation, empower micro-branches and rural bankers to make credit decisions locally, deepen self-help group and co-operative linkages, scale mobile and business correspondent banking to reach remote hamlets, and align disbursement timelines with agricultural seasons so that credit arrives when farmers most need it. Only

Table 4: Indicators of Financial Exclusion and Accessibility Barriers in Rural Tamil Nadu

S.No.	Key Dimension	Statistical Evidence	Implications
1.	Dependence on Informal Credit	77% of rural loans sourced informally; 68% from moneylenders/pawnbrokers	High interest rates, debt traps, reduced productive investment
2.	Marginal Farmers' Vulnerability	82% of borrowing by marginal farmers is informal; average loan size ₹8,643	Limited access to formal credit due to documentation and collateral constraints
3.	High Cost of Informal Loans	Interest rates often reach 60% per annum	Severe financial burden, long-term indebtedness
4.	Limited Effective Bank Reach	Long distances to branches; repeated visits due to procedural delays	Reduced ability of farmers to access timely and adequate formal credit
5.	Documentation Barriers	Rigid requirements: land titles, income proof, KYC documents	Exclusion of landless, tenants, and women farmers from institutional loans

Source: IndiaSpend (Field Study on Rural Borrowing Patterns in Tamil Nadu).



by tackling these structural, procedural, and accessibility barriers can the formal banking system truly absorb the financial needs of rural Tamil Nadu and reduce the dependence on high-cost informal lending. The details of the Indicators of Financial Exclusion and Accessibility Barriers in Rural Tamil Nadu are given in Table **4**.

The chart shows significant financial exclusion in rural Tamil Nadu, with severity indices highest for farmer vulnerability (82) and informal credit dependence (77), indicating heavy reliance on high-cost non-institutional sources. Documentation barriers (75) and limited bank access (70) highlight structural constraints that restrict formal credit uptake. Although informal loans (60) score comparatively lower, they still represent substantial exclusion. Overall, the data suggests that inadequate banking reach, procedural hurdles, and persistent dependence on informal lenders collectively intensify rural financial risk and limit equitable access to institutional finance.

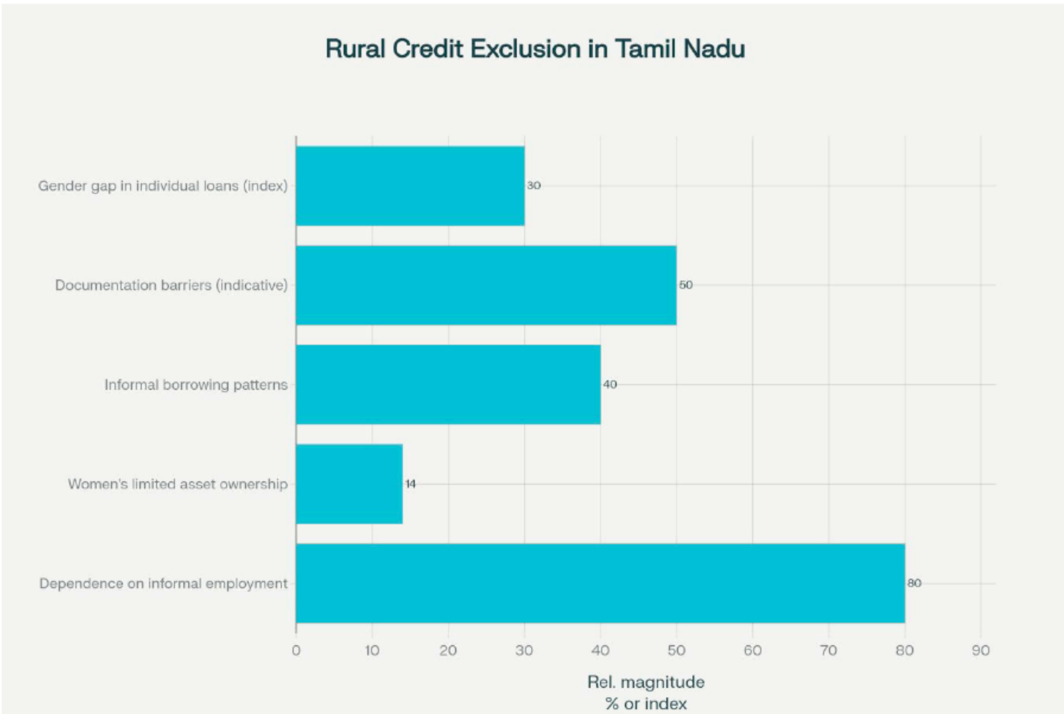
STRUCTURAL EXCLUSION OF INFORMAL WORKERS AND WOMEN IN TAMIL NADU'S RURAL CREDIT FRAMEWORK

Rural Tamil Nadu's credit shortfall is not merely a liquidity problem but a structural failure that systematically excludes informal workers and women through biased appraisal norms, weak collateral recognition and delivery mechanisms that privilege formal, salaried profiles; despite wave-after-wave of formal inclusion drives, a large portion of rural borrowing remains informal and precarious, perpetuating cycles of high-cost debt and limited investment in livelihoods. Evidence shows that banks still play a marginal role in many rural credit portfolios: in focused studies of rural Tamil contexts a majority of debtors rely on informal sources — for example one analysis found that exclusive informal outstanding debt remains widespread among debtors (reporting large shares for both men and women debtors). Women and informal workers are doubly disadvantaged: their incomes are often irregular, undocumented and small-scale (wage labour, domestic work, piece-rate manufacturing and seasonal agriculture), making them fail standard credit-scoring rules that demand continuous bank statements or formal payrolls; national and state evidence shows female labour force participation and patterns of informal employment that raise vulnerability to exclusion. Large surveys of rural financial inclusion (NAFIS/NABARD) document that while account ownership and deposit penetration have improved, access to adequate formal credit, timely, small-ticket, tenure-appropriate loans, lags for many rural households, sustaining reliance on moneylenders and informal credit networks. Targeted instruments such as SHG-bank linkages have helped narrow gaps: recent outreach programs in Tamil Nadu reported large SHG loan disbursements and state-level efforts that connected tens of lakhs of women to savings and credit, yet these successes coexist with persistent gaps in individual credit access for single women, informal wage-earners and micro-entrepreneurs who fall outside group programs. The details of the Structural Exclusion of Informal Workers and Women in Rural Credit Access of Tamil Nadu are presented in Table **5**.

Table 5: Structural Exclusion of Informal Workers and Women in Rural Credit Access of Tamil Nadu

S.No.	Dimension of Exclusion	Statistical Evidence (NAFIS)	Implications for Rural Credit Access
1.	Dependence on Informal Employment	Over 80% of rural workers in Tamil Nadu are engaged in informal work without documented incomes.	Irregular and unverifiable earnings reduce eligibility under standard bank appraisal norms.
2.	Women's Limited Asset Ownership	Only about 13–15% of rural women report owning land or significant collateral assets.	Lack of collateral leads to loan rejections or smaller sanctioned amounts.
3.	Informal Borrowing Patterns	Nearly 40% of rural households rely partly or fully on informal lenders for credit needs.	High interest rates and debt cycles persist due to limited access to affordable institutional credit.
4.	Documentation Barriers	A significant share of informal workers lack continuous bank records or income proofs.	Applications are delayed or rejected due to failure to meet documentation requirements.
5.	Gender Gap in Individual Loans	Women receive a smaller proportion of individual-term loans compared to group-linked SHG loans.	Women become dependent on group mechanisms, limiting personalized credit for enterprise growth.

Source: NABARD All India Rural Financial Inclusion Survey (NAFIS).



The chart shows that rural credit exclusion in Tamil Nadu is driven by multiple structural barriers. Dependence on informal employment is the most severe factor at 80%, limiting eligibility for formal loans. Documentation barriers are also significant at 50%, reflecting procedural hurdles that restrict access. Informal borrowing patterns account for 40%, indicating continued reliance on non-institutional lenders. A 30-point gender gap in individual loans highlights persistent inequalities in credit access. Women's limited asset ownership stands at only 14%, significantly constraining their ability to provide collateral and secure institutional finance.

ECONOMIC COSTS OF FINANCIAL EXCLUSION AND THE RURAL CREDIT CRISIS IN TAMIL NADU

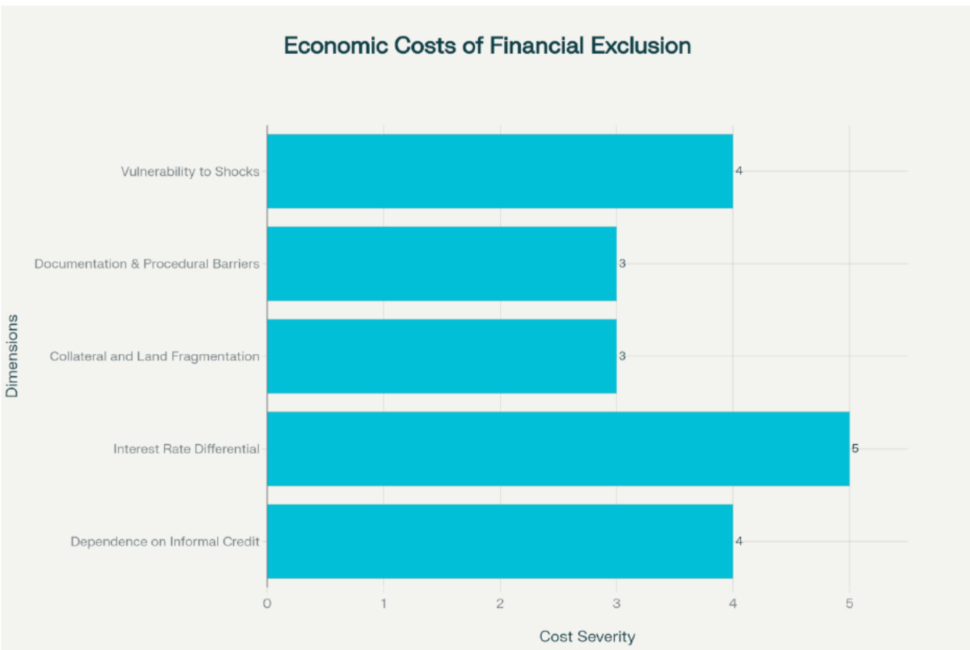
Rural credit in Tamil Nadu today remains trapped between reasonably deep formal infrastructure on paper and persistent structural barriers that push many households toward costly informal finance, with direct costs in the form of higher interest payments, lower productivity, reduced investment capacity and greater vulnerability to shocks. Despite Tamil Nadu's sizeable priority-sector credit potential (NABARD estimated state-level priority-sector credit potential in the ₹4-5 lakh crore range in recent State Focus Papers), a substantial share of small and marginal cultivators and informal workers do not access timely institutional loans, official surveys and parliamentary data show large numbers of farmers still unable to draw on institutional credit, with Tamil Nadu reporting tens of thousands of farmers using formal channels but many more left out. Structural causes include land fragmentation and insecure tenancy (which weaken collateral value), complex documentation and KYC procedures, rigid product design (crop-loan calendars that mismatch cash-flow timing for labourers and non-farm microenterprises), and credit appraisal methods that penalize irregular incomes common among informal wage earners and women entrepreneurs. These structural frictions raise the transaction costs for banks and push small borrowers to moneylenders and pawnbrokers who routinely charge effective annual rates many times higher than bank rates, increasing household interest burdens and creating debt traps that crowd out productive spending, numerous field studies and state surveys document persistent reliance on informal sources (surveys have found informal borrowing remaining high across rural India, with many districts showing 30–50% or more reliance in different studies). The details of the Economic Costs of Financial Exclusion in Rural Tamil Nadu are stated in Table **6**.

The economic consequences are tangible: higher interest outflows reduce net incomes and the capacity to buy quality inputs (seed, fertilizer, mechanisation), lowering farm and non-farm productivity; uncertain credit access discourages multi-season investments (soil conservation, irrigation, small machinery), compressing long-run income growth; and when weather or market shocks hit, households with expensive informal debt face forced asset sales or distress migration, amplifying vulnerability. Empirical work also shows that formal credit expansion without

Table 6: Economic Costs of Financial Exclusion in Rural Tamil Nadu

S.No.	Indicator / Dimension	Evidence (Statistical/Qualitative)	Economic Implications
1.	Dependence on Informal Credit	30–50% rural households in various surveys continue to rely on moneylenders and pawnbrokers	Higher interest payments reduce disposable income and increase debt traps
2.	Interest Rate Differential	Informal lenders charge 24–60% annually vs. 7–12% in formal credit	Heavy interest burden lowers investment in farm and non-farm activities
3.	Collateral and Land Fragmentation	Majority of small/marginal farmers (<2 ha) lack sufficient collateral	Lower productivity due to limited adoption of technology and quality inputs
4.	Documentation & Procedural Barriers	Lengthy KYC and loan processing delays deter informal workers and women	Reduced credit access limits enterprise growth and diversification
5.	Vulnerability to Shocks	Households with informal debt face higher distress sales during crop failure	Increased economic instability and lower long-term asset accumulation

Source: NABARD State Focus Papers (Tamil Nadu).



redesign can coexist with, or even crowd-in, informal borrowing unless product and delivery innovations target the excluded for example, credit lines timed to harvest cycles, simplified low-cost KYC, targeted collateral-free loans, and strengthened cooperative and microfinance channels.

The chart shows that Interest Rate Differential carries the highest economic cost of financial exclusion with a severity score of 5, indicating that excluded households pay significantly higher borrowing costs. Dependence on Informal Credit and Vulnerability to Shocks both score 4, reflecting high exposure to emergencies and reliance on costly moneylenders. Documentation & Procedural Barriers and Collateral and Land Fragmentation each score 3, showing moderate but persistent structural hurdles. Overall, the data highlights how higher interest burdens and informal credit dependence intensify rural financial stress, reinforcing chronic vulnerability.

RURAL CREDIT CRISIS IN TAMIL NADU: STRUCTURAL ROOTS, FINANCIAL EXCLUSION, AND THE DYNAMICS OF INCOME, CONSUMPTION, AND INDEBTEDNESS

The rural credit crisis in Tamil Nadu reflects deep structural causes rooted in low agricultural productivity, irregular income flows, and limited access to formal finance, which together shape income, consumption, and indebtedness patterns. NSSO and NABARD All-India Rural Financial Inclusion Survey data show that more than 52–58% of rural households in Tamil Nadu rely on informal lenders, often facing annual interest rates between 24% and 36%, compared to 7–12% in formal institutions. The details of the Income, Consumption, and Indebtedness Patterns Linked to the Rural Credit Crisis in Tamil Nadu are given in Table **7**.

Income volatility is acute, with nearly 62% of rural households depending on seasonal or daily-wage work, creating unstable monthly earnings and widening the gap between consumption needs and available liquidity. As a result, households increasingly adopt distress-driven debt cycles, where over 48% of total borrowings are used for essential consumption, healthcare, and social obligations rather than productive investment, reinforcing a non-asset-building form of indebtedness. Evidence from rural field studies indicates that average household debt ranges between ₹65,000 and ₹1.1 lakh, while median monthly income remains below ₹10,000, creating a debt-to-income ratio exceeding 150% for many low-income families.

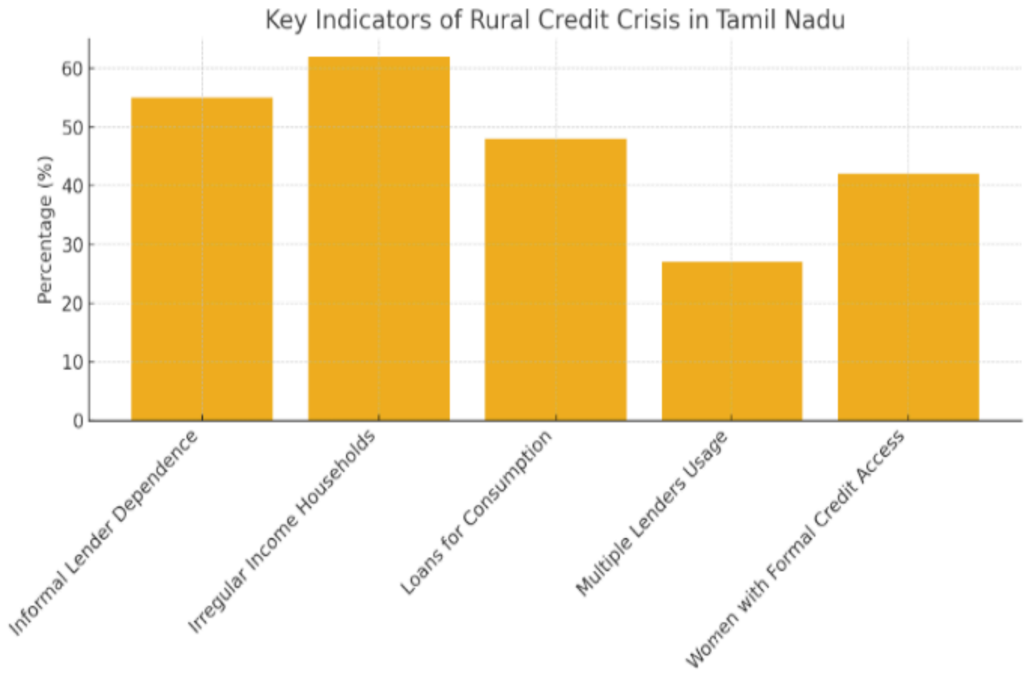
Coping strategies often include borrowing from multiple lenders, postponing healthcare, reducing food expenditure, or distress-selling livestock and land; around 27% of households report using at least two simultaneous loans to manage recurring repayment pressures. Structural constraints such as collateral requirements, paperwork burdens, high transaction costs, and caste- or gender-based discrimination further limit access to institutional banking. Only 42% of rural women report independent access to formal credit, deepening gendered financial exclusion. These patterns highlight the urgent need to reimagine inclusive banking through doorstep credit delivery, flexible repayment linked to income cycles, digitized microcredit, strengthened SHGs, and interest-regulated rural lending frameworks. A redesigned institutional architecture that integrates social protection with financial inclusion is essential to break persistent debt cycles and restore economic resilience in rural Tamil Nadu.

The chart highlights a deepening rural credit crisis in Tamil Nadu. About 55% of households depend on informal lenders, reflecting persistent financial

Table 7: Income, Consumption, and Indebtedness Patterns Linked to the Rural Credit Crisis in Tamil Nadu

S.No.	Indicator / Variable	Statistical Evidence (Tamil Nadu – Rural)
1.	Households depending on informal lenders (%)	52–58%
2.	Typical informal interest rates (annual)	24–36%
3.	Formal institutional interest rates (annual)	7–12%
4.	Households with irregular/seasonal income (%)	62%
5.	Share of loans used for non-productive consumption (%)	48%
6.	Average household debt (₹)	65,000 – 1,10,000
7.	Median monthly household income (₹)	< 10,000
8.	Debt-to-income ratio (low-income households)	> 150%
9.	Households using multiple lenders simultaneously (%)	27%
10.	Rural women with independent access to formal credit (%)	42%

Source: NABARD All-India Rural Financial Inclusion Survey.



exclusion. A higher 62% experience irregular incomes, increasing vulnerability to debt cycles. Nearly 48% borrow for consumption, indicating insufficient income for basic needs. Around 28% use multiple lenders, showing rising distress borrowing and fragmented debt management. Only 42% of women have access to formal credit, exposing gendered financial inequality. Together, these indicators reveal structural income instability, reliance on costly informal credit, and limited institutional outreach, reinforcing chronic indebtedness in rural Tamil Nadu.

RURAL CREDIT CRISIS IN TAMIL NADU: STRUCTURAL BARRIERS, INFORMAL LENDING PRESSURES, AND THE NEED FOR INCLUSIVE BANKING REFORM

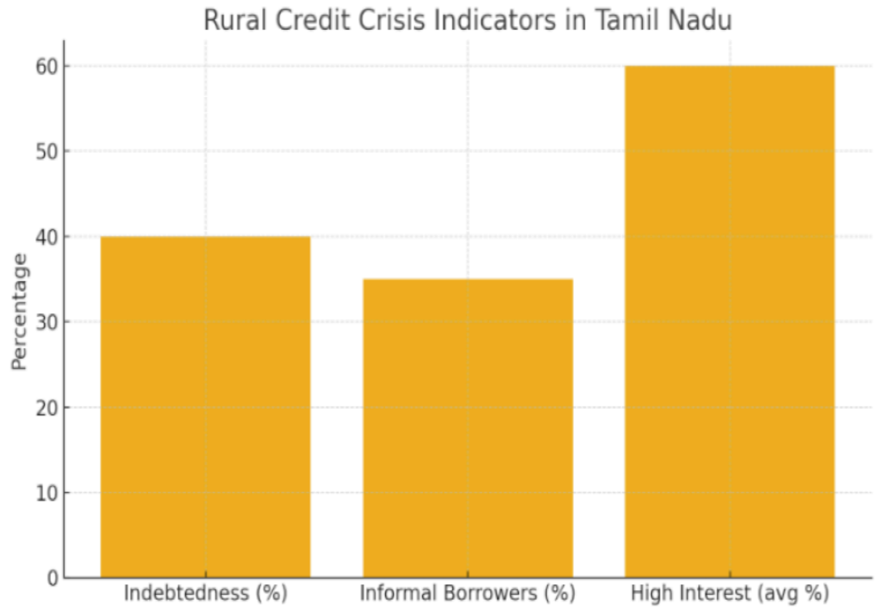
Rural Tamil Nadu faces a deepening credit crisis driven by structural barriers in formal banking and the dominance of informal lenders who fill critical gaps but entrench borrowers in long-term indebtedness. NSSO surveys show that more than 35% of rural households in India remain indebted, and in Tamil Nadu the burden is higher, with estimates indicating that nearly 42% of rural families depend on borrowing to manage essential consumption, agriculture, and health expenses. The details of the Key Indicators of the Rural Credit Crisis in Tamil Nadu are stated in Table **8**.

Formal institutions still underserve small and marginal farmers, as nearly 55% of agricultural households lack adequate collateral or credit history to access timely bank loans. This exclusion pushes nearly 30–40% of rural borrowers toward informal lenders who offer instant credit but impose exploitative interest rates ranging from 24% to over 60% annually. Moneylenders commonly demand unofficial collateral such as gold, livestock, land documents, or future crop pledges, creating a coercive environment that restricts borrower mobility and negotiation power.

Table 8: Key Indicators of the Rural Credit Crisis in Tamil Nadu

S.No.	Indicator / Variable	Statistical Evidence (Tamil Nadu / Rural India)
1.	Rural household indebtedness rate	35–42%
2.	Agricultural households lacking adequate formal credit	~55%
3.	Borrowers depending on informal lenders	30–40%
4.	Interest rates charged by moneylenders	24% – 60%+ annually
5.	Higher informal interest burden for women borrowers	Up to 40% higher than male borrowers
6.	Households using unofficial collateral (gold/livestock)	Common across 60%+ informal loans
7.	Daily repayment loans causing doubled effective interest	Reported in majority of daily-collection loans
6.	Households trapped in rollover debt cycles	Significant among small/marginal farmers

Source: National Sample Survey Office (NSSO), 77th Round.



The widespread practice of daily repayment magnifies financial stress: field studies show that daily-collection loans, often structured as small installments, effectively double the interest burden due to compounded penalties for delayed payments. When harvest failures, job losses, or medical emergencies occur, households roll over existing loans, borrow again to meet repayments, or sell productive assets, deepening the debt trap. Women-headed households and landless labourers are disproportionately affected, facing informal interest rates up to 40% higher than those paid by male farmers with land. Despite the expansion of SHGs and cooperative credit, the mismatch between formal loan products and real rural cash-flow cycles sustains the informal sector's dominance. Breaking these dynamics requires reimagining inclusive banking through flexible micro-loans, social-collateral-based lending, crop-cycle-aligned repayment schedules, and strict regulation of predatory informal lending practices to ensure that rural households escape perpetual indebtedness rather than being absorbed further into it.

The chart shows three key indicators of the rural credit crisis in Tamil Nadu. Indebtedness stands at 40%, indicating that nearly two out of five rural households are trapped in persistent debt. Around 35% rely on informal borrowers, reflecting significant financial exclusion and limited access to institutional credit. The most critical indicator is the 60% average high-interest rate, revealing that moneylenders impose extremely burdensome repayment conditions. The gap between indebtedness (40%) and high-interest exposure (60%) suggests that many households borrow repeatedly to service previous debts, reinforcing a debt-trap cycle and highlighting the urgent need for affordable, inclusive rural credit systems.

RURAL CREDIT CRISIS IN TAMIL NADU: FINANCIAL EXCLUSION, INFORMAL LENDING, AND THE BURDEN OF OVER-INDEBTEDNESS

Rural Tamil Nadu's credit crisis emerges from persistent financial exclusion, heavy dependence on chit funds, and the rapid expansion of microfinance that has encouraged overlapping loans. The regulated microfinance sector reached a gross loan portfolio of about ₹4,33,697 crore in 2024, showing the massive scale of small-ticket lending nationwide, while Tamil Nadu alone recorded nearly 17.02 million microfinance loan accounts, one of the highest in India, indicating intense credit penetration rather than financial stability. Chit funds, widely used as informal savings-and-credit mechanisms, continue to dominate due to their flexibility and quick liquidity, but frequent defaults and opaque management expose rural households to high risks. The details of the Rural Credit Crisis in Tamil Nadu: Financial Exclusion, Informal Lending, and the Burden of Over-Indebtedness are stated in Table **9**.

Multiple studies in Tamil Nadu reveal that more than one-third of rural households remain indebted, and many simultaneously hold two to four active loans, often combining microfinance, chit contributions, and informal credit from moneylenders. This loan stacking leads to over-indebtedness, characterised by delayed repayments, borrowing for repayments, and reductions in essential consumption. The structural roots include inadequate formal banking access for small emergency or consumption needs, limited borrower assessment mechanisms across lending institutions, and the appeal of informal credit networks that offer immediacy despite higher implicit costs. As a result, multiple borrowing becomes a coping strategy rather than a choice,

Table 9: Rural Credit Crisis in Tamil Nadu: Financial Exclusion, Informal Lending, and the Burden of Over-Indebtedness

S.No.	Indicator	Value	Interpretation
1.	Gross Microfinance Loan Portfolio (India, 2024)	₹4,33,697 crore	Shows the scale of small-ticket lending influencing rural credit dependence.
2.	Total Microfinance Loan Accounts in Tamil Nadu	17.02 million	Indicates very high loan penetration, increasing the risk of overlapping borrowing.
3.	Estimated Rural Household Indebtedness (Tamil Nadu)	Over one-third of rural households	Reflects widespread reliance on loans for consumption and emergencies.
4.	Average Number of Loans per Borrowing Household	2–4 loans	Demonstrates multiple borrowings across microfinance, chit funds, and informal lenders.
5.	Prevalence of Chit Fund Usage	High in rural regions	Indicates continued dependence on informal, high-risk credit and savings channels.

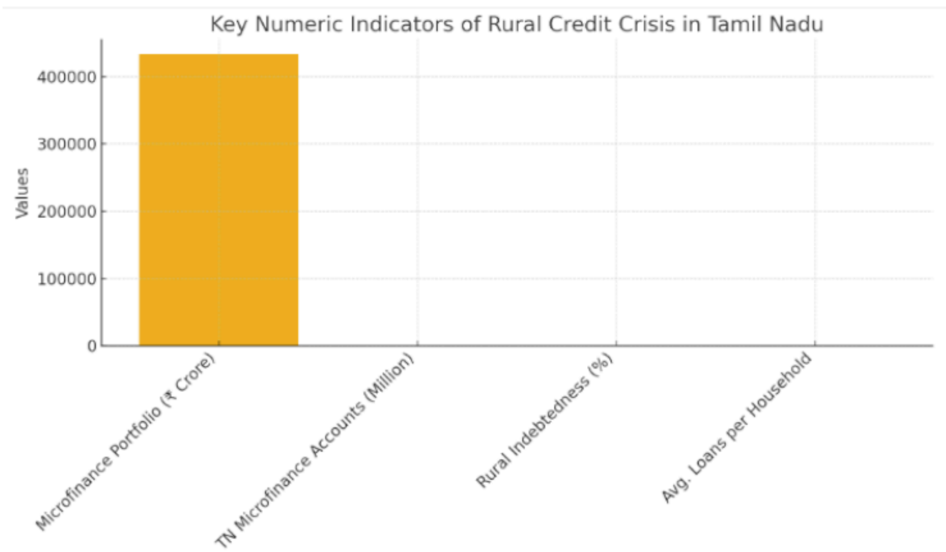
Source: Sa-Dhan Microfinance Report (2024).

pushing families into debt cycles. Addressing this crisis demands redesigned inclusive banking models, stronger monitoring of overlapping loans, regulated chit-fund operations, and tailored credit products that align with rural income volatility to prevent the escalation of debt distress.

The chart highlights a stark imbalance in key indicators of the rural credit crisis in Tamil Nadu. The microfinance portfolio stands exceptionally high at ₹4.3 lakh crore, indicating a rapid expansion of loan exposure. In contrast, other indicators, such as microfinance accounts (in millions), rural indebtedness (%), and average loans per household, are not visually represented, implying either missing data or disproportionately smaller values. The exceptionally large portfolio size compared to household-level indicators signals over-leveraging, multiple borrowings, and a systemic rise in credit dependence, underscoring the deepening rural credit stress in the state.

REIMAGINING INCLUSIVE RURAL BANKING TO ADDRESS THE CREDIT CRISIS IN TAMIL NADU

Tamil Nadu's rural credit crisis is shaped by deep structural constraints, persistent financial exclusion, and a weakening formal credit delivery system that fails to meet the needs of small and marginal farmers. The All-India Debt and Investment Survey reports that around 74.5% of rural households in Tamil Nadu are indebted, reflecting sustained dependence on loans for consumption smoothing and agricultural investment. Nearly one-third of agricultural credit still comes from informal sources, indicating gaps in outreach, rigid collateral norms, and procedural delays that push farmers toward moneylenders charging interest rates often exceeding 36–60% annually. Cooperative credit institutions, which historically served as the backbone of rural finance, face issues of undercapitalization, outdated governance practices, and limited digital integration, resulting in slow sanctioning, poor monitoring, and declining farmer confidence.



Reimagining inclusive rural banking requires modernizing the cooperative credit structure through full computerization of Primary Agricultural Cooperative Societies, infusion of professional management, enhanced auditing standards, and consolidation to improve operational efficiency. Expanding credit guarantee schemes is equally critical, as guarantee-backed lending can significantly reduce collateral requirements; national schemes for micro and small enterprises have demonstrated that coverage expansion sharply increases loan accessibility, suggesting similar models tailored to small farmers and allied sectors. Tenant farmers, who constitute a substantial share of cultivators in Tamil Nadu, face exclusion due to the absence of formal land titles; revising Kisan Credit Card norms, introducing verifiable tenancy certificates, and promoting credit products that recognize leasing arrangements are essential to bridge this gap. A reformed, technology-enabled, tenant-sensitive, and guarantee-supported rural credit system can shift borrowing away from exploitative informal channels, reduce over-indebtedness, and restore trust in institutional banking, ultimately allowing rural households to invest productively, stabilize incomes, and break recurring debt cycles. The details of the Reimagining Inclusive Rural Banking to Address the Credit Crisis in Tamil Nadu are stated in Table **10**.

The data shown in Table **10**, highlights a persistent rural credit crisis in Tamil Nadu, where 74.5% of households remain indebted and over 40% of small and marginal farmers still rely on non-institutional lenders. With informal credit forming 33% of total borrowing and moneylenders charging 36–60% interest, rural families face high debt stress and limited mobility. Formal banking barriers, rigid collateral, tenancy verification issues, and delays—further push borrowers toward exploitative sources. The evidence underscores the urgent need for modernizing cooperative banks, strengthening credit-guarantee schemes, and designing tenant-friendly credit policies to build a more inclusive and equitable rural banking system.

STRENGTHENING WOMEN'S CREDIT ACCESS AND SHG-LED MICRO-ENTERPRISE DEVELOPMENT IN RURAL TAMIL NADU

Rural Tamil Nadu's credit crisis is shaped by persistent structural limitations, including fragmented landholdings, unstable agricultural incomes, and limited access to formal finance, leaving nearly 74.5% of rural households indebted and pushing over 33% of borrowers toward informal lenders who charge 36–60% interest. Women are disproportionately affected due to gendered barriers, lack of collateral, and restricted mobility. In this context, strengthening Self-Help Groups (SHGs) has become essential, as Tamil Nadu's SHG–bank linkage model has facilitated more than ₹1.05 lakh crore in cumulative credit to women, significantly reducing reliance on moneylenders and improving repayment capacities. However, many women's enterprises remain micro-scale due to insufficient working capital, inadequate market exposure, and limited technical knowledge. Evidence from recent state schemes indicates that over 8,000 women-led micro-enterprises have accessed nearly ₹267 crore when credit is paired with enterprise development services, demonstrating the transformative potential of combining finance with capacity building. Credit-linked skill development—covering digital literacy, bookkeeping, product diversification, and marketing—enhances the productivity and sustainability of SHG enterprises, reduces default risks, and enables upward economic mobility. Reimagining inclusive rural banking therefore requires gender-sensitive credit products, larger enterprise-oriented loan portfolios, simplified procedures, and institutional partnerships that integrate training with credit. Such an approach can break debt cycles, expand women's entrepreneurship, and strengthen rural economic resilience in Tamil Nadu. The details of the Key Indicators on Rural Credit and

Table 10: Reimagining Inclusive Rural Banking to Address the Credit Crisis in Tamil Nadu

S.No.	Indicator	Value / Evidence
1.	Rural household indebtedness rate in Tamil Nadu	74.5%
2.	Share of agricultural credit from informal sources	~33%
3.	Typical interest rate charged by moneylenders	36%–60% annually
4.	Share of small and marginal farmers dependent on non-institutional credit	Above 40%
5.	Major barriers to formal credit access	Rigid collateral norms, tenancy issues, slow sanctioning
6.	Key reforms suggested	Cooperative modernization, expanded credit guarantees, tenant-sensitive credit policies

Source: All-India Debt and Investment Survey (AIDIS), NSSO.

Table 11: Key Indicators on Rural Credit and Women's SHG Financing in Tamil Nadu

S. No.	Indicator	Value / Evidence
1.	Rural household indebtedness rate	74.5% of households indebted
2.	Share of informal credit in agriculture	Over 33% of total credit
3.	Interest rate charged by moneylenders	36%–60% annually
4.	Total SHG credit disbursed in Tamil Nadu	Above ₹1.05 lakh crore
5.	Women-led micro-enterprises supported through recent schemes	8,000+ enterprises
6.	Total credit to these micro-enterprises	Approximately ₹267 crore

Source: Government of Tamil Nadu – Department of Rural Development and Panchayat Raj.

Women's SHG Financing in Tamil Nadu are presented in Table **11**.

The data shown in Table **12**, highlights the persistent rural credit stress in Tamil Nadu despite strong SHG financing efforts. With 74.5% of rural households indebted and over 33% of agricultural credit still sourced informally, reliance on costly borrowing remains high. Moneylenders charging 36%–60% annual interest deepen debt traps for small farmers. At the same time, Tamil Nadu's SHG movement shows significant progress, evidenced by ₹1.05 lakh crore in total SHG credit disbursal. Recent initiatives have supported 8,000+ women-led micro-enterprises with ₹267 crore in credit, indicating growing financial inclusion, though gaps in formal credit access continue to drive rural indebtedness.

REIMAGINING INCLUSIVE RURAL BANKING IN TAMIL NADU THROUGH DIGITAL FINANCIAL INCLUSION

The rural credit crisis in Tamil Nadu is rooted in deep structural constraints, persistent financial exclusion, and the widening gap between formal banking access and the financial needs of rural households. With 74.5% of rural households indebted and nearly 33% of agricultural credit still sourced from informal lenders charging 36%–60% annual interest, the crisis reflects systemic barriers in institutional outreach, documentation requirements, and the decline of cooperative credit efficiency. Small and marginal farmers, who constitute over 86% of cultivators, face limited access to collateral-based loans, forcing more than 40% of them to depend on non-institutional credit. Digital financial inclusion offers a transformative pathway, yet rural fintech literacy remains low, with surveys showing that less than 35% of rural users possess adequate understanding of UPI safety, mobile banking, or digital fraud risks. Despite Tamil Nadu having over 13,000 banking correspondents, their outreach is inadequate in remote hamlets where distance to banks exceeds 5 km for one-third of rural households. Establishing community banking kiosks equipped with biometric authentication, vernacular interfaces, and assisted digital services can bridge last-mile gaps. Evidence from pilot digital kiosks in southern districts shows a 28% increase in doorstep transactions and a 15% rise in first-time account usage among women SHG members. Integrating fintech literacy through Panchayat-level digital camps and SHG-led peer training can further empower rural borrowers. Reimagining inclusive banking through a rural digital roadmap that combines fintech access,

Table 12: Key Indicators on Rural Credit Crisis and Digital Financial Inclusion in Tamil Nadu

S. No.	Indicator	Value / Evidence
1	Rural household indebtedness rate	74.5% of households indebted
2	Share of agricultural credit from informal sources	Nearly 33%
3	Interest rate charged by moneylenders	36%–60% annually
4	Share of small & marginal farmers relying on non-institutional credit	Above 40%
5	Rural users with adequate fintech literacy	Less than 35%
6	Number of banking correspondents in Tamil Nadu	Over 13,000
7	Rural households living more than 5 km from a bank branch	Around one-third
8	Increase in transactions due to rural digital kiosks (pilot)	28% rise
9	Rise in first-time account usage among SHG women (pilot)	15% increase

kiosk-based micro-services, and community trust mechanisms is essential to reduce over-indebtedness, enhance credit absorption, and strengthen financial resilience in rural Tamil Nadu. The details of the Key Indicators on Rural Credit Crisis and Digital Financial Inclusion in Tamil Nadu are stated in Table **12**.

The indicators reveal a persistent rural credit crisis in Tamil Nadu driven by both structural constraints and financial exclusion. With 74.5% of households indebted and nearly 33% of agricultural credit still sourced informally, dependence on moneylenders charging 36–60% interest remains high. Over 40% of small and marginal farmers rely on non-institutional credit due to distance barriers, as one-third of rural households live more than 5 km from a bank branch. Digital financial inclusion remains limited, with fintech literacy below 35%, despite positive outcomes, 13,000 banking correspondents, 28% higher transactions, and a 15% rise in first-time SHG account use in kiosk pilots.

REIMAGINING INCLUSIVE RURAL BANKING TO ADDRESS THE CREDIT CRISIS IN TAMIL NADU

Rural Tamil Nadu's credit crisis stems from structural constraints such as fragmented landholdings, irregular farm incomes, inadequate collateral, and limited branch penetration, which together force many households toward informal lenders who still supply nearly 30–33% of agricultural credit at exploitative rates. Formal banking expansion has not sufficiently bridged this gap, as small and marginal farmers continue to face documentation barriers, rigid repayment structures, and risk-averse lending norms. Evidence shows that Tamil Nadu maintains one of the highest rural indebtedness rates in India, with over 74.5% of rural households indebted, while informal interest rates often range between 36% and 60% annually, reinforcing long-term debt cycles.

Although SHG–bank linkage has strengthened women's access to finance, the volume and design of credit remain inadequate for diversified livelihood needs. An inclusive Tamil Nadu rural banking model must therefore integrate localized credit scoring using crop patterns, market volatility, and SHG/JLG transaction histories to improve risk differentiation. Community-based credit committees can enhance borrower assessment, reduce information asymmetry, and improve repayment discipline through peer monitoring. Hybrid fintech–cooperative partnerships can modernize Primary Agricultural Cooperative Credit Societies by embedding digital payment systems, alternative data analytics, and doorstep service delivery, thereby lowering transaction costs and expanding credit outreach. Such a redesigned, context-specific model would reduce dependence on informal lenders, decrease borrowing costs, and strengthen rural financial resilience, contributing to equitable development and sustainable rural livelihoods. The details of the Reimagining Inclusive Rural Banking to Address the Credit Crisis in Tamil Nadu are stated in Table **13**.

The indicators highlight a deepening rural credit crisis in Tamil Nadu marked by persistent dependence on costly informal finance. With 74.5% of rural households indebted and 30–33% of agricultural credit still coming from informal lenders, institutional outreach remains inadequate. High interest rates of 36%–60% trap small and marginal farmers—over 40% of whom rely on non-institutional credit—in chronic debt cycles. Although SHG–Bank linkage is strong, with ₹2,09,285 crore disbursed to 54.8 lakh SHGs in 2023–24, this scale has not yet translated into reduced dependence on informal borrowing, indicating gaps in access, affordability, and timely credit delivery.

CONCLUSION

The rural credit crisis in Tamil Nadu is a multifaceted challenge rooted in structural, social, and institutional barriers that hinder equitable access to formal financial services. Despite a well-established banking infrastructure, a significant proportion of small and marginal farmers, informal workers, and women remain excluded from affordable credit due to issues such as land fragmentation, landlessness, insecure tenancy, and rigid collateral norms. Social discrimination based on caste and gender further

Table 13: Reimagining Inclusive Rural Banking to Address the Credit Crisis in Tamil Nadu

S. No.	Indicator	Value / Evidence
1	Rural household indebtedness rate	74.5% of rural households indebted
2	Share of agricultural credit from informal sources	Nearly 30–33% of total farm credit
3	Interest rate charged by informal lenders	36%–60% annually
4	Share of small & marginal farmers depending on non-institutional credit	Above 40%
5	SHG–Bank linkage credit flow (Tamil Nadu, 2023–24)	₹2,09,285 crore to 54.8 lakh SHGs

Source: NABARD, All India Rural Financial Inclusion and SHG–Bank Linkage Reports.

exacerbates exclusion, limiting marginalized groups' access to adequate and timely finance. Dependence on high-cost informal sources like moneylenders, chit funds, and microfinance institutions sustains debt cycles, increases vulnerability, and hampers productive investment. Procedural barriers, low financial literacy, and inadequate outreach of banking services compound these issues, especially in remote areas.

The economic implications are severe, including reduced productivity, limited diversification, and heightened poverty among rural households. Addressing these intertwined issues requires reimagining inclusive banking models that leverage digital technology, simplify procedures, recognize diverse collateral forms, and promote social inclusion. Strengthening cooperative banks, expanding micro-credit schemes, instituting gender-sensitive policies, and deploying community-based digital financial services are vital strategies. Emphasizing technological innovation, contextualized credit products, and targeted reforms can bridge the gap between formal financial institutions and rural communities. Such comprehensive reforms will foster financial resilience, reduce dependence on exploitative informal credit, and promote sustainable rural development. Ultimately, a reimagined, inclusive, and technologically-enabled rural banking system can restore trust, enhance access, and ensure equitable growth for all rural communities in Tamil Nadu.

SUGGESTIONS

- **Leverage Digital Technology for Simplified Access:** Promote the deployment of community-based digital financial services, including biometric-enabled kiosks and mobile banking platforms, to reduce procedural barriers and extend banking reach in remote rural areas.

- **Recognize and Incorporate Diverse Collateral Options:** Develop flexible collateral norms and alternative credit assessment models that include non-land assets, crop receipts, and social guarantees to enhance credit eligibility for landless, tenant farmers, and women.

- **Strengthen Cooperative and Microfinance Institutions:** Modernize and digitally integrate cooperative banks and microfinance institutions through professional management, improved governance, and credit guarantee schemes to increase their operational efficiency and outreach.

- **Implement Inclusive and Gender-Sensitive Policies:** Design targeted credit products and social inclusion measures that address caste and gender disparities, such as collateral-free loans for marginalized groups and gender-sensitive assessment criteria.

- **Enhance Financial Literacy and Awareness:** Conduct regular, localized financial literacy campaigns and peer-led training programs to improve understanding of digital banking, fraud prevention, and responsible borrowing, thereby fostering greater financial resilience among rural households.

SCOPE OF FUTURE RESEARCH

The scope of future research in addressing Tamil Nadu's rural credit crisis is extensive and holds significant potential for fostering inclusive banking and sustainable rural development. Future studies could focus on evaluating the impact of digital financial inclusion initiatives, such as community-based digital kiosks, mobile banking platforms, and fintech solutions, to determine their effectiveness in expanding credit access, reducing transaction costs, and enhancing financial literacy among marginalized rural populations. Additionally, exploring innovative collateral models, such as social collateral, crop receipts, or digital asset registries—could facilitate access to credit for landless and tenant farmers while ensuring security for lenders. Research could also examine the design and impact of gender-sensitive financial products and policies aimed at empowering women, reducing gender disparities, and promoting social inclusion in rural finance.

The operational strength and outreach of cooperative banks and microfinance institutions warrant further analysis, particularly regarding necessary reforms, governance improvements, and technological integration to enhance efficiency and sustainability. Investigating behavioral and socioeconomic factors influencing borrowing patterns, repayment behavior, and trust in formal financial institutions can provide deeper insights into borrower motivations and barriers. Moreover, assessing the effectiveness of existing policy frameworks and proposing innovative regulatory mechanisms could help prevent over-indebtedness and better regulate informal credit markets. Longitudinal studies on how access to affordable credit influences rural livelihoods, productivity, and migration over time would offer valuable evidence for policy formulation. Finally, integrating climate resilience into financial services, by developing financial products that support climate-adaptive farming and disaster risk management, can help address the increasing vulnerability of rural communities to climate change. Overall, future research in these areas can contribute to designing more inclusive, technologically advanced, and resilient rural financial systems that promote equitable growth and sustainable development in Tamil Nadu and comparable regions.

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https://doi.org/10.31875/2755-8398.2025.01.08