

PROBLEMS OF RURAL FINANCING IN INDIA

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Abstract

Rural finance plays a crucial role in society. A significant number of marginal farmers small for businesses owners and poor women rely on credit to initiate their ventures which in turn benefits the community as a whole. Rural finance includes both formal and informal financial institutions such as small and large banks that offer a wide range of financial subsidies to rural populations .These services include small loans for the poor and large financial support for agro processing and other small and medium enterprises in rural areas. It also includes various micro finance institutions (MFIs) such as indigenous rotating savings and credit associations financial cooperatives and rural and agricultural development banks. Rural finance is essential for poverty reduction and rural development. It helps bring together the different resources needed for increased productivity and improves the financial and livelihood situations of people living in rural areas. This paper aims to analyze the problems faced by the poor in assessing rural financing in India .

Key words: Rural, Finance, Poor, KCC, Rural Banks.

Introduction

It encompasses all income levels in rural areas and covers formal, semi-formal, and informal institutions—from commercial and cooperative banks to microfinance groups and local credit associations .Rural financing refers to providing financial services such as loans, savings, insurance, and credit facilities to people living in rural areas. urthermore, modern initiatives like the **PM Dhan-Dhaanya Krishi Yojana (PM-**

DDKY) and complete **PACS digitization** are structurally transforming how funds move through rural areas by bridging old infrastructure gaps. The government has aggressively expanded the Ground Level Credit (GLC) target to an all-time high of **₹32.50 lakh crore for FY 2025–26**, reserving a massive ₹5 lakh crore sub-target to fuel non-crop allied sectors like fisheries, dairy, and animal husbandry. This institutional shift is supported by recent field

surveys from NABARD showing that over **51% of rural households now rely exclusively on formal credit networks.** Concurrently, the central banking system has relaxed immediate constraints on vulnerable producers by lifting the **collateral-free lending ceiling to ₹2.00 lakh** and expanding the interest-subvention borrowing limit under the **Kisan Credit Card (KCC) scheme up to ₹5 lakh.** Ultimately, wrapping these formal credit lines inside low-cost, index-based insurance protections allows the broader rural populace to scale up independent local startups, absorb unexpected environmental shocks, and completely transition away from predatory, high-interest moneylending chains

Some major problems are:

1. Limited Access to Banks and Infrastructure

Many villages lack physical banking branches and reliable internet connectivity, which severely restricts rural populations from engaging with the formal financial system. To solve this, institutions deploy local Business Correspondents equipped with biometric micro-ATMs alongside localized Digital Banking Units to bring

paperless, cloud-based transaction facilities directly to the villager's doorstep.

2. Lack of Collateral

Smallholder farmers and rural entrepreneurs rarely own high-value registered assets, making it nearly impossible for them to secure traditional property-backed bank loans. Financial systems bypass this barrier by using Self-Help Groups and Joint Liability Groups, which substitute physical property with social collateral and peer-group guarantees to secure institutional credit lines.

3. High Dependence on Informal Lenders

Due to immediate funding requirements, rural households frequently rely on local moneylenders who exploit them with predatory, high-interest credit cycles. Governments counter this by enforcing Priority Sector Lending quotas on commercial banks and distributing Kisan Credit Cards, which provide farmers with a direct, highly subsidized line of revolving credit.

4. Low Financial Literacy and Complex Procedures

Intimidating documentation, lengthy bureaucratic formalities, and a general lack

of awareness regarding banking systems often discourage semi-literate rural citizens from seeking formal help. Banks address this by running localized Financial Literacy Centres to demystify financial products, while utilizing biometric IDs to create simplified, single-page digital onboarding forms that require only a thumbprint.

5. Irregular Income and High Credit Risk

Rural workers suffer from highly volatile, seasonal incomes that are deeply vulnerable to crop failures, natural disasters, and sudden market price fluctuations. To absorb this risk, lenders embed subsidized crop and livestock insurance directly into credit products and restructure loan repayment timelines to match actual harvest cycles rather than rigid monthly calendars.

6. Gender-Related Barriers

Rural women face extreme financial exclusion because traditional customs restrict them from owning land or assets, cutting off their access to mainstream credit. To break this cycle, apex development agencies provide dedicated micro-refinancing funds to local banks, allowing them to extend collateral-free business loans specifically to women-led micro-enterprises.

Ground Level Agricultural Credit (GLC)

Timeline:

This table highlights the progressive expansion of formal credit targets set by the government versus actual disbursements by institutional networks.

Financial Year	Institutional Target (₹ Lakh Crore)	Actual/Provisional Credit Disbursed (₹ Lakh Crore)	Strategic Growth & Performance Summary
FY 2022–23	—	~₹18.50	Strong post-pandemic expansion: Marked a decisive recovery phase in credit flow to rural sectors.
FY 2023–24	₹20.00	~₹24.80	Significant outperformance: Drastically surpassed early estimates, driven by high demand for agroprocessing inputs.
FY 2024–25	₹27.50	~₹28.69	Priority sector acceleration: Reached an all-time high by beating the government's

			upwards-revised targets.
FY 2025–26	₹32.50	Ongoing Execution	Allied sector focus: Includes a structured sub-target of ₹5.00 lakh crore specifically for dairy, animal husbandry, and fisheries.

Source: National Bank for Agriculture and Rural Development

(NABARD)

The table illustrates a massive upward path in formal credit distribution, jumping from approximately ₹18.50 lakh crore in FY 2022–23 to an expected target of ₹32.50 lakh crore for FY 2025–26. Institutional lenders consistently outperformed initial government benchmarks, as seen in FY 2023–24 and FY 2024–25 where actual disbursements systematically outpaced early projections. The timeline highlights a modern structural shift toward a diversified rural economy, highlighted by the introduction of heavy, dedicated credit sub-targets specifically designed for allied sectors like animal husbandry, dairy, and fisheries.

Another useful indicator is Kisan Credit Card (KCC) lending. RBI reports that

outstanding KCC loans increased from ₹5.75 lakh crore in 2023–24 to ₹6.01 lakh crore in 2024–25, an increase of about 4.5%.

2. Kisan Credit Card (KCC) Lending and Scheme Parameters

This table maps out the recent growth in outstanding short-term farm credit alongside upgraded policy boundaries designed to ease liquidity constraints for rural households.

Parameter	Values	Policy Impact & Structural Modernization
FY 2023–24 Outstanding	₹5.75 lakh crore	Represented a strong base volume in revolving crop and seasonal maintenance credit.
FY 2024–25 Outstanding	₹6.01 lakh crore	Registered a 4.5% year-on-year growth in real-sector credit penetration.
Total Operative Accounts	₹7.72 crore (As of March 31, 2025)	Demonstrates widespread coverage extending down to small, marginal, and tenant landholders.
Maximum MISS Credit Limit	₹5.00 lakh (Raised from ₹3.00 lakh)	Offers loans at concessional interest rates to acquire modern farm machinery.
Collateral-Free Loan Ceiling	₹2.00 lakh (Raised from	Removes the need for land-based collateral,

	₹1.60 lakh)	protecting small and poor farmers from exploitative moneylenders.
Effective Net Interest Rate	4.00% per annum	Supported through a 3% incentive for timely repayment under the Modified Interest Subvention Scheme.
Allied Sector Extensions	Crop + Livestock, Dairy, & Fisheries	Brings various agricultural sub-sectors together through a unified financial support system.
Digital Ecosystem Shift	Kisan Rin Portal Integration	Links local Primary Agricultural Credit Societies (PACS) directly

Source: National Bank for Agriculture and Rural Development (NABARD)

Strategic Framework for Enhancing Rural Finance

- **Expansion of Rural Banking Facilities:**

Establishing physical brick-and-mortar bank branches, expanding network infrastructure, and scaling up the deployment of local Business Correspondents (BCs) directly addresses the geographic isolation of unbanked villages. This localized push bridges operational gaps by bringing secure, doorstep financial transactions right to the community's immediate vicinity. Upgrading

existing facilities into full-service hubs allows Scheduled Commercial Banks and Regional Rural Banks to cater to sophisticated savings and deposit needs. Ultimately, this physical and agent-based footprint acts as a gateway for deep-rooted financial inclusion across complex rural terrains.

- **Simplification of Loan Procedures:**

Slashing unnecessary physical documentation and transitioning applications to transparent, digital portals eliminates intimidating bureaucratic bottlenecks for semi-literate borrowers. Streamlining these approvals makes the formal underwriting process fast and clear, shielding rural applicants from stalling tactics or corruption. Integrating satellite land mapping and digitized state land records directly into financial applications completely bypasses the need for physical revenue department certificates. This rapid turn-around time reduces the borrower's transactional friction, encouraging an immediate shift away from informal lending options.

- **Increase in Institutional Credit**

Directing a massive volume of adequate and timely formal loans toward farmers, small businesses, rural entrepreneurs, and the self-employed accelerates local livelihood

generation. This deliberate supply-side push keeps productivity stable by injecting liquid capital exactly when seasonal operations require it. Adhering strictly to updated Priority Sector Lending (PSL) rules compels commercial institutions to systematically expand credit distribution across marginalized communities. This steady capital flow builds community resilience, shifting rural economies from mere survival modes into sustainable surplus generation.

- **Strengthening Kisan Credit Cards (KCC)**
Expanding KCC limits and rolling out ATM-enabled debit cards ensures that smallholder farmers can tap into quick working-capital lines for crop cultivation and emergency expenses. By establishing this seamless line of credit, rural households are spared from liquidating assets prematurely to cover immediate raw input costs. Fresh regulatory updates extend these comprehensive composite borrowing facilities into all sub-segments of aquaculture, dairy, and inland marine fisheries. Furthermore, the standardization of crop seasons under new frameworks provides farmers with predictable, fair loan maturity timelines.
- **Financial Literacy Programmes**

Conducting village-level educational camps on savings practices, low-cost credit facilities, digital banking, and government social security schemes directly builds grassroots financial confidence. Demystifying complex financial terms helps rural households make sensible investment choices and actively avoid hidden traps. Teaching communities to securely navigate digital payments shields vulnerable populations from cyber fraud and predatory informal lending practices. These systemic capacity-building programs turn passive rural residents into highly active participants in the formal banking network.

- **Promotion of Self-Help Groups (SHGs)**
Encouraging deep SHG-bank linkages via missions like DAY-NRLM explicitly targets rural women who lack formal property ownership. Deploying local community facilitators like Bank Sakhis helps these groups manage savings and loans prudently, generating true household economic independence. This collective institutional approach substitutes rigid asset requirements with strict mutual accountability and peer-led monitoring. Consequently, financial institutions can confidently disburse credit lines to historically underserved, uncollateralized segments.

- **Credit Guarantee Facilities**

Scaling up national credit guarantee frameworks absorbs default risks on behalf of commercial institutions, reducing their strict demands for physical property security. This protective cushion encourages banks to confidently extend credit to small, marginal, and landless tenant borrowers who are traditionally rejected. Providing collateral-free loan provisions for allied agricultural activities unlocks growth for livestock and animal husbandry workers. This safety valve helps commercial networks widen their portfolios without risking a spike in toxic assets.

- **Promotion of Digital Banking:**

Expanding interoperable UPI networks, mobile banking options, and digital wallets across remote areas lowers cash-handling costs and cuts down on transaction times. This shift builds a robust digital footprint for the borrower, allowing banks to dynamically analyze cash flows instead of depending on static asset verification. Platforms like the Jan Samarth Portal completely automate verification workflows, driving an end-to-end paperless lending cycle. This ongoing modernization ensures that remote farming

communities enjoy the same speed of capital as urban enterprises.

- **Interest-Rate Support and Subsidies**

Deploying interest concessions like the Modified Interest Subvention Scheme (MISS) keeps capital highly affordable for small-scale agricultural units. Offering lower net interest rates drastically lightens the debt-servicing load on low-income families, making debt repayment highly sustainable. Coupling these subsidies directly with Prompt Repayment Incentives (PRI) instills strong financial discipline across the borrowing community. This combination ensures that the real cost of microfinance stays well below market averages, driving down overall default rates.

- **Crop and Rural Insurance:**

Embedding comprehensive, index-based crop and livestock insurance directly into credit products shields borrowers against sudden climate shocks and epidemics. When natural disasters strike, instant insurance payouts settle outstanding institutional dues, keeping the farmer out of a vicious debt trap. Standardizing coverage against specific post-harvest delays ensures that market price drops do not devastate household liquidity. This protective buffer builds long-term

institutional stability, keeping banks willing to lend even in highly disaster-prone zones.

- **Support for Rural Entrepreneurship**

Providing targeted start-up finance paired with structural mentoring, technical training, and direct e-commerce marketplace linkages creates jobs away from traditional fields. This targeted assistance helps local micro-enterprises scale up their processing operations and capture better value in competitive urban markets. Capital infusions via dedicated credit frameworks like the MUDRA scheme empower local artisans and processing units to expand their asset bases. This commercial diversification effectively insulates rural households from severe financial downturns caused by volatile crop cycles.

- **Better Monitoring of Credit**

Utilizing automated end-use verification, digital dashboards, and AI-supported risk tracking ensures that disbursed loans are directed into productive income-generating assets. Regular field tracking and proactive advisory systems stop early credit diversions, dramatically lowering non-performing asset (NPA) rates for rural lenders. Linking disbursement accounts to verifiable agricultural inputs ensures

transparent capital utilisation right from day one. This meticulous transparency builds systemic credit trust, prompting banks to continually increase their annual lending targets.

Conclusion and Suggestions

The structural transformation of rural financing in India highlights a decisive shift from traditional, asset-backed banking to an inclusive, technology-driven financial ecosystem. While entrenched bottlenecks like inadequate physical infrastructure, strict collateral requirements, and gender disparities continue to challenge marginal borrowers, systematic interventions through Self-Help Groups (SHGs) and the Kisan Credit Card (KCC) scheme have significantly weakened the grip of predatory informal moneylenders. To sustain this momentum, future policies must focus on deepening the digital architecture via the Kisan Rin Portal and scaling up localized financial literacy drives that build genuine user trust among semi-literate populations. Furthermore, formal financial networks must proactively expand risk-mitigation frameworks—such as index-based crop insurance and flexible, crop-cycle-aligned repayment timelines—to cushion rural entrepreneurs from extreme climate shocks

and unpredictable market price fluctuations. Ultimately, making rural finance seamlessly accessible, affordable, timely, and digitally available will not only empower vulnerable groups like landless tenant farmers and women-led micro-enterprises but will also structurally accelerate aggregate rural development and poverty reduction across the nation.

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