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Indebtedness Among Agricultural Labor Households in India: A Descriptive Study

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Abstract
This Study is a description of indebtedness among agricultural labour households in India. Agricultural labour households in India occupy a vulnerable position in rural economies; they typically earn daily wages from farm and non-farm work, lack land ownership, and have seasonal, uncertain incomes. Indebtedness among these households affects consumption, investment in human capital, and overall welfare. In the various dimensions of indebtedness among these households, exploring its prevalence, underlying causes, and socio-economic consequences. It situates findings within the historical and institutional context of rural credit markets and offers policy recommendations to reduce distress and improve financial inclusion for agricultural labourers and their families, impacting the livelihoods and economic well-being of a significant segment of the rural population.
Keywords:- Agricultural labour, indebtedness, rural credit, India, financial inclusion, distress financing, microcredit, informal lenders

Introduction
Agricultural labour households in India occupy a vulnerable position in rural economies: they typically earn daily wages from farm and non-farm work, lack land ownership, and have seasonal, uncertain incomes. Indebtedness among these households affects consumption, investment in human capital, and overall welfare. This paper aims to provide a systematic, descriptive account of indebtedness among agricultural labour households, focusing on prevalence, sources, determinants, uses, and consequences.

Agricultural Labour Households
These households primarily depend on wage labour in agriculture rather than land ownership. They typically face seasonal employment, low wages, and limited access to productive assets, which makes them highly vulnerable to indebtedness.

Indebtedness
Indebtedness refers to the financial obligations of households in the form of outstanding loans, credit, or borrowings. For agricultural labour households, it often reflects both consumption needs (e.g., food, health, education, social ceremonies) and production-related borrowing (e.g., tools, inputs for tenant farming).

Rural Credit Markets
Rural households access credit from both **formal sources** (banks, cooperatives, microfinance institutions) and **informal sources** (moneylenders, traders, employers, relatives). The interplay between these markets shapes the cost, accessibility, and sustainability of indebtedness.

Financial Inclusion
Financial inclusion captures the extent to which agricultural labour households can access affordable and reliable financial services. Limited financial inclusion often forces households to rely on informal, high-interest credit.

Distress Financing
Borrowing under conditions of compulsion, such as medical emergencies, crop failures, or loss of employment, is categorized as distress financing. Such loans are usually high-cost and contribute to chronic indebtedness and vulnerability.

Socio-Economic Consequences
Indebtedness among agricultural labour households has far-reaching effects:

- **Economic:** Debt traps, asset depletion, reduced consumption capacity.
- **Social:** Loss of dignity, intergenerational poverty, social exclusion.
- **Psychological:** Stress, anxiety, and in extreme cases, contributing to farmer and labourer suicides.

Policy Response
Addressing indebtedness requires targeted interventions: strengthening rural credit delivery, promoting self-help groups (SHGs), enhancing wage employment schemes (e.g., MGNREGS), and implementing social protection measures like health insurance and direct benefit transfers.

Research Questions

Question : What is the prevalence of indebtedness among agricultural labour households in India, and how does it vary geographically and by socio-demographic characteristics?

The prevalence of indebtedness among agricultural labor households in India is a significant concern, with various factors contributing to its extent and magnitude.

Prevalence: Approximately 22.3 million rural labor households in India are indebted. Studies suggest that households with less human and physical assets are at a higher risk of indebtedness, while those self-employed in agricultural and non-agricultural activities also experience significant debt.

Geographical Variation:- Indebtedness varies across different states in India. For instance, Andhra Pradesh reported 93.2% indebtedness among agricultural households, while Nagaland reported 6%.

- State-level data from the National Sample Survey (70th Round) provides insights into agricultural indebtedness.

Socio-Demographic Variation:- Social Groups: Indebtedness differs among social groups, including ST, SC, OBC, and others. Agricultural labor households from lower-income backgrounds and those with limited access to formal credit are more vulnerable to debt.

- Land Holding Size: The extent of indebtedness varies with land holding size, with households having smaller landholdings often experiencing higher debt burdens.

- Primary Source of Income: Households primarily dependent on agricultural income are more likely to be indebted.

Determinants:- Factors determining indebtedness include low income, irregular employment, lack of access to formal credit, and socio-religious obligations.

- Human and physical assets also play a significant role in determining the extent of indebtedness.

Question: What are the main formal and informal sources of credit for these households?

Sources of Credit for Agricultural Labor Households in IndiaFormal Sources of Credit- Commercial Banks: Large public or private banks operating nationwide, providing loans for agricultural activities and rural development. Examples include State Bank of India, Punjab National Bank, and Bank of Baroda.

- **Cooperative Banks**: Owned and operated by local communities or members of the same cooperative society, offering credit at concessional interest rates and promoting thrift and self-help.

- **Regional Rural Banks (RRBs)**: Established in 1975 to focus on rural financial inclusion, RRBs operate in specific regions and are jointly owned by the Central Government, State Government, and a Sponsor Bank.

- **National Bank for Agriculture and Rural Development (NABARD)**: Acts as the apex institution for rural finance, providing refinance support to cooperative banks, RRBs, and other rural lenders.

Informal Sources of Credit- Moneylenders: Often the first choice for urgent rural credit due to easy availability, moneylenders charge high interest rates and may involve exploitative practices.

- **Landlords:** Extend credit to tenants, often with high interest rates and tied to labor obligations.

- **Agricultural Moneylenders:** Deal with agricultural laborers and small farmers, providing credit for farming activities.

- **Professional Moneylenders:** Service a wider range of customers, including farmers, and may register themselves as moneylenders.

- **Traders and Commission Agents:** Provide credit for inputs like seeds, fertilizers, and household essentials, often with hidden costs or inflated pricing.

- **Relatives and Friends:** Offer interest-free or low-interest loans, often with flexible repayment terms

Question: What do households borrow for (consumption smoothing, healthcare, weddings, production inputs, migration costs, etc.)?

Households in India borrow for various purposes, including:-

- **Production Inputs**: Agricultural households with larger landholdings tend to borrow more for farm business expenses, such as capital and revenue expenditures.
- **Consumption Smoothing**: Households borrow to smooth out consumption patterns, especially during periods of low income or unexpected expenses.
- **Healthcare:** Medical emergencies and healthcare expenses are common reasons for borrowing, particularly among vulnerable households.
- **Weddings and Social Obligations:** Borrowing for social events like weddings, ceremonies, and other obligations is prevalent, especially in rural areas.
- **Migration Costs:** Some households borrow to cover costs associated with migration for work or other opportunities.
- **Other Purposes:** Borrowing for non-agricultural purposes, such as:
  - Land purchases or repairs
  - Business investments
  - Education expenses
  - Household needs

It's worth noting that agricultural labor households with smaller landholdings often have more than half of their loans dedicated to non-agricultural purposes. The specific purposes of borrowing can vary significantly depending on factors like household income, land ownership, and social status.

Question:- Which household and contextual factors are associated with higher indebtedness and higher loan burdens?

Household and contextual factors associated with higher indebtedness and loan burdens in India include:-

- **Less human and physical assets:** Households with limited assets and resources are more vulnerable to debt.
- **Small landholdings:** Farmers with smaller landholdings tend to have higher debt burdens compared to larger landholders.
- **Unpredictable weather and farming income:** Agricultural income uncertainty contributes to indebtedness.
- **Unproductive spending:** Excessive spending on social ceremonies and other non-essential expenses can lead to debt.
- **Illiteracy and lack of financial literacy:** Limited financial knowledge and planning can exacerbate debt issues.
- **Source of income:** Households primarily dependent on agricultural income are more likely to be indebted.
- **Socio-economic characteristics:** Indebtedness varies across social groups, with certain groups facing higher debt burdens.
- **Geographical location:** Regional disparities and differences in agricultural productivity contribute to varying levels of indebtedness.

- **Borrowing capacity:** Households with better borrowing capacity, despite having fewer assets, tend to have higher indebtedness.

Question:- What coping strategies do indebted households employ, and what are the observed welfare consequences?

Indebted households in India employ various coping strategies to manage debt and financial stress. These include: - **Intra-household labor substitution:** When a household member falls ill, other members may take on additional work to compensate for lost income. For example, if the household head is ill, their spouse might increase their labor supply to offset the loss.

- **Borrowing from informal sources:** Households may borrow from local moneylenders, friends, or relatives to smooth consumption. Large landowners tend to rely on gifts from kinship networks, while landless and smallholders often increase borrowings from informal sources.
- **Selling durable assets:** Households may sell assets, such as livestock or household items, to cope with financial stress.
- **Extracting natural resources:** In some cases, households might extract natural resources, like forest products, to generate additional income.
- **Government support programs:** Some households rely on government support programs, like welfare initiatives or alternative wage employment, to manage financial shocks.
- **Reallocating household resources:** Households might reallocate resources, such as labor or finances, to cope with financial stress.
- **Remittances:** Some households receive remittances from relatives, which can help alleviate financial burdens.
- **Withdrawing savings:** Households might use their savings to cope with financial shocks.

The observed welfare consequences of these coping strategies can be significant. For instance:

- **Reduced consumption:** Households might reduce their consumption of essential goods, like food, to cope with debt.
- **Changes in dietary diversity:** Illness shocks can lead to changes in household dietary diversity, potentially affecting nutrition and health.
- **Increased child labor:** In some cases, households might resort to using child labor to cope with financial stress.
- **Long-term welfare consequences:** Repeated exposure to financial shocks and inadequate coping strategies can have long-term welfare consequences, including reduced economic stability and increased poverty.

Literature Review

Studies have shown that rural credit markets in India are characterized by the coexistence of both formal and informal sources of finance. RBI report - Despite efforts to promote formal credit, informal sources continue to play a significant role in rural India, with about 43% of rural households relying on informal finance in 2002. The share of institutional agencies in total debt increased from 29% in 1971 to 61% in 1981 but declined to 57% in 2002. Moneylenders, both professional and agricultural, remain important sources of finance in rural areas, with their share in outstanding cash dues varying across states. Formal credit

delivery channels often face challenges, such as rigid procedures and lack of personal bonds with borrowers, which informal sources like moneylenders can address more effectively [3]
Evidence on indebtedness and distress among smallholders and landless labour, including links to consumption volatility, healthcare shocks, and asset sales. Mona (2019) The problem of indebtedness in rural India has always been a burning issue for debate among the scholars, policy makers and economists. This is so principally because of the greatness of the shortfall idea of rural family financial plans particularly the small land holdings and any remaining farmers having unfortunate methods for money. The erratic climate, the weight of old obligation, quite a while hole among consumption and pay from cultivating exercises, the small size of land holding property, useless spending on friendly functions, a high rate of illiteracy are a portion of the significant elements liable for the horticultural indebtedness in India. In the event that obligation is utilized exclusively to meet the deficiency in family spending plans and isn't used for genuine reason, which involves a perilous result. Consequently, it leads to hindering the interest of both the loan specialist and the borrower. Manas A(2022) Agricultural labourers are the socially and economically poorest section of the society. Agricultural labourer households constitute the historically deprived social groups, displaced handicraftsmen and dispossessed peasantry Their growth reflects the colonial legacy of under development and the inadequacies of planning intervention in the past. Overcrowding and growth of agricultural laborers continued unabated, given poor labour absorption in the non- agricultural sector and also inadequacies of reforms in the agrarian structure. The poverty syndrome among agricultural labourers needs to be read against such a background of prolonged rural under development, assetlessness, unemployment, low wages, under-nutrition, illiteracy and social backwardness constitute the poverty syndrome among agricultural labourers.
Research on financial inclusion, Self-Help Groups (SHGs), microcredit, and government schemes in India has shown promising results in reducing indebtedness and promoting economic development. SHGs report Grievance Self-Help Groups (SHGs) are small, community-based organizations where members pool their resources for mutual economic support, often focusing on savings and credit activities. These groups play a crucial role in empowering marginalized communities, fostering financial inclusion, and promoting sustainable livelihoods. Qudsiya A(2025) explores how microfinance has been implemented and its effectiveness in reducing poverty levels among its clients and examines potential challenges or limitations that may hinder the success of microfinance programs.

Research gaps in agricultural labor household indebtedness studies include:

- Limited Nationally Representative Studies: Fewer studies focus specifically on agricultural labor (landless) households, highlighting the need for more comprehensive research on this demographic.
- Insufficient Descriptive Analysis: There is a lack of detailed analysis on debt composition, including the sources and uses of debt, and seasonal dynamics that affect agricultural labor households' financial stability.

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- Debt Composition: Investigating the types of debt, such as formal vs. informal sources, and their implications on agricultural labor households' financial well-being.
- Seasonal Dynamics: Analyzing how seasonal fluctuations in income and expenses impact debt repayment and financial stability among agricultural labor households.
- Impact of Government Schemes: Evaluating the effectiveness of government initiatives, like MGNREGS, in reducing indebtedness and improving livelihoods among agricultural labor households.
- Policy Formulation: More research in these areas can inform policy decisions and program development aimed at supporting agricultural labor households.
- Financial Inclusion: Understanding debt composition and seasonal dynamics can help design more effective financial inclusion initiatives for rural communities.
- Poverty Reduction: By addressing these gaps, researchers and policymakers can work towards reducing poverty and improving the socio-economic conditions of agricultural labor households.

Data Sources

The National Sample Survey (NSS) latest report on "Situation Assessment of Agricultural Households and Land and Livestock Holdings of Households in Rural India" was published in September 2021. The survey was conducted during January-December 2019 and provides insights into agricultural households' income, productive assets, indebtedness, farming practices, and awareness of technological developments.

Number of Agricultural Households: 93.094 million households in rural India were classified as agricultural households.

Average Monthly Income: ₹10,218 per agricultural household, broken down into:

- - Wages: ₹4,063
- - Net Receipt from Crop Production: ₹3,798
- - Net Receipt from Farming of Animals: ₹1,582
- - Net Receipt from Non-Farm Business: ₹641
- - Income from Leasing Out Land: ₹134
- - Indebtedness: 50.2% of agricultural households were indebted, with an average outstanding loan of ₹74,121 per household.
- - Sources of Loans: 57.5% of loans were taken for agricultural purposes, with 44.5% of loans coming from commercial banks and 20.5% from professional moneylenders.

Land Holdings:

- - Average Land Owned: 0.512 hectares per household.
- - Landless Households: 8.2% of rural households were landless.
- - Distribution of Land: 70.4% of agricultural households possessed less than 1 hectare of land, while only 0.4% had more than 10 hectares.

Social Group Distribution: - Agricultural Households: 45.8% belonged to Other Backward Classes (OBCs), 15.9% to Scheduled Castes (SCs), and 14.2% to Scheduled Tribes (STs).

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The National Sample Survey Office (NSSO) recently released the Household Consumption Expenditure Survey (HCES) 2023-24 report, which provides valuable insights into household consumption patterns and expenditure in India. Here are some key findings [1]:

Average Monthly Per Capita Expenditure (MPCE):
- Rural: ₹4,122 (₹4,247 with imputed benefits), showing a 9% increase from 2022-23
- Urban: ₹6,996 (₹7,078 with imputed benefits), showing an 8% increase from 2022-23

Urban-Rural Gap: The gap has reduced from 84% in 2011-12 to 70% in 2023-24, indicating faster consumption growth in rural areas

Non-Food Expenditure: Non-food items dominate household expenditure, accounting for 53% in rural areas and 60% in urban areas, with major contributions from conveyance and clothing

Income Inequality: The Gini coefficient has declined to 0.237 in rural areas and 0.284 in urban areas, reflecting reduced income disparity

State-wise MPCE: Highest in Sikkim and lowest in Chhattisgarh

Policy Implications and Recommendations

Policy Implications and Recommendations to address indebtedness among agricultural labor households in India, policymakers can consider the following implications and recommendations:

Policy Implications- Targeted Interventions: Policies should focus on the most vulnerable groups, such as scheduled castes and agricultural laborers, who experience higher levels of indebtedness.

Financial Inclusion: Increasing access to formal credit sources and promoting financial literacy can help reduce dependence on informal lenders and mitigate debt traps.

Agricultural Support: Initiatives that enhance agricultural productivity, such as farm mechanization and improved farming practices, can increase income and reduce debt burdens.

Recommendations-

Debt Relief Programs: Implementing debt relief programs or debt waiver schemes can provide immediate relief to heavily indebted households.

Microfinance Initiatives: Expanding microfinance initiatives can provide accessible credit options for agricultural labor households.

Livelihood Diversification: Promoting livelihood diversification, such as non-farm employment opportunities, can help reduce dependence on agriculture and mitigate debt risks.

Social Safety Nets: Strengthening social safety nets, such as health insurance and employment guarantee schemes, can help households cope with financial shocks and reduce debt accumulation.

Awareness and Education: Conducting awareness programs on financial management and debt counseling can empower households to make informed decisions about credit and debt .

Implementation Strategies- Collaboration: Encourage collaboration between government agencies, financial institutions, and civil society organizations to implement effective debt mitigation strategies.

Monitoring and Evaluation: Establish robust monitoring and evaluation mechanisms to track the impact of policies and programs on indebtedness among agricultural labor households.

Capacity Building: Provide training and capacity-building programs for agricultural labor households to enhance their financial management skills and awareness of credit options.

Conclusion

This study documents the extent and drivers of indebtedness among agricultural labour households in India, combining descriptive statistics with correlational analysis and qualitative insights. The results inform policy interventions to reduce distress financing and promote inclusive rural financial markets.This study highlights the necessity of comprehensive and focused actions to stop the cycle of indebtedness. These include expanding access to reasonably priced institutional credit, encouraging financial literacy, and putting socioeconomic policies into place that deal with the systemic obstacles labor households confront. Reducing reliance on debt and guaranteeing sustainable economic growth require bolstering rural job initiatives, expanding livelihood options, and encouraging community-based financial solutions.

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