

RESEARCH PAPER

# Magnitude and Determinants of Indebtedness among Rural Labour Households in Punjab

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## ABSTRACT

This study examines the extent, structure, and determinants of indebtedness among rural labour households in Punjab using primary data collected from 530 households across 22 villages. The findings reveal a pervasive incidence of debt, with over 92 per cent of households being indebted, particularly among agricultural labourers. A substantial share of borrowing (over four-fifths) originates from non-institutional sources such as large farmers and moneylenders, often at exorbitant interest rates exceeding 15 per cent per annum. Borrowing is predominantly driven by consumption needs, especially socio-religious ceremonies and purchase of consumer goods, reflecting structural income inadequacies. Econometric analysis indicates that family size, number of dependents, reliance on non-institutional credit, and unproductive expenditure significantly influence the level of indebtedness. The study underscores the persistence of exploitative credit structures and highlights the urgent need for strengthening institutional credit access and reducing dependence on informal lending sources to mitigate rural indebtedness.

## HIGHLIGHTS

- Over 92% of rural labour households are indebted in Punjab.
- Non-institutional sources dominate borrowing at high interest rates.
- Loans are mainly used for consumption and socio-religious purposes.
- Family size, dependents, and informal credit reliance drive indebtedness.

**Keywords:** Rural labour households, Indebtedness, Non-institutional credit, Agricultural labour, Consumption borrowing, Punjab, Credit constraints, Determinants of debt

Rural labour households constitute one of the most vulnerable sections of the agrarian economy in India, characterized by landlessness, low income, irregular employment, and limited access to productive resources. Despite their significant contribution to agricultural activities, their socio-economic conditions remain precarious, marked by poverty, illiteracy, and social marginalization (Singh & Singh, 2015; Brahma Naidu *et al.* 2018). The benefits of agricultural growth, particularly during the Green Revolution, have largely bypassed this group, left their income levels and living standards relatively stagnant (Bharti, 2011).

Indebtedness has emerged as a persistent and structural issue among rural labour households.

Inadequate and uncertain income, coupled with rising consumption needs and social obligations, compels these households to rely heavily on credit. However, due to lack of collateral, low repayment capacity, and institutional rigidities, access to formal credit remains limited (Deshpande *et al.* 2001). Consequently, rural labourers depend predominantly on non-institutional sources such as moneylenders and large farmers, often at exorbitant interest rates, leading to exploitative credit relations

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and chronic debt cycles (Hanumanthappa, 2014; Kumar, 2022).

Moreover, a significant portion of borrowed funds is utilized for non-productive purposes, including socio-religious ceremonies and consumption expenditure, which further weakens repayment capacity and reinforces the cycle of indebtedness (Singh *et al.* 2019). Given these structural constraints, indebtedness among rural labour households is not merely an economic issue but also reflects deeper social and institutional inequalities.

Against this backdrop, the present study seeks to examine the magnitude, sources, purposes, and key determinants of indebtedness among rural labour households in Punjab, thereby contributing to a better understanding of rural credit dynamics and informing policy interventions.

### MATERIALS AND METHODS

The present study is based on primary data collected from rural labour households in Punjab. For sampling, the state was stratified into three regions based on agricultural productivity i.e., low, medium, and high and one district was selected from each region, namely Mansa, S.B.S. Nagar, and Ludhiana. A total of 22 villages were selected from all development blocks of these districts. Using a random sampling technique, one-tenth of the rural labour households from each selected village were surveyed, resulting in a total sample of 530 households, including 229 agricultural labour households and 301 non-agricultural labour households. To analyse the determinants of indebtedness, both descriptive statistics and multiple regression analysis were employed. The functional relationship is specified as:

$$Y = a + b_1X_1 + b_2X_2 + \dots + b_nX_n$$

where Y represents the dependent variable (amount of loan in ₹), a is the constant term, and  $b_1, b_2, \dots, b_n$  are the regression coefficients of the explanatory variables  $X_1, X_2, \dots, X_n$ . Specifically, the model is expressed as:

$$Y = f(X_1, X_2, X_3, X_4, X_5, X_6)$$

where  $X_1$  denotes family size,  $X_2$  number of dependents,  $X_3$  education level of the decision-

maker,  $X_4$  income from subsidiary occupations (₹),  $X_5$  ratio of non-institutional to institutional loans, and  $X_6$  expenditure of borrowed funds on socio-religious ceremonies (₹). This econometric framework facilitates the identification of key socio-economic determinants influencing the level of indebtedness among rural labour households.

### RESULTS AND DISCUSSION

The extent and magnitude of indebtedness among rural labour households in Punjab are presented in Table 1. The findings reveal that indebtedness is widespread, with 92.45 per cent of the sampled households being under debt. The incidence is relatively higher among agricultural labour households (94.32 per cent) compared to non-agricultural labour households (91.03 per cent). However, the average amount of loan per indebted household is higher for non-agricultural labour households (₹ 60,178.83) than for agricultural labour households (₹ 51,324.07), indicating relatively greater borrowing intensity among the former. These results are consistent with earlier findings that highlight the pervasive nature of rural indebtedness (Borooah & Das, 2008).

**Table 1:** Extent of Indebtedness among Rural Labour Households

Particulars	AL	NAL	All Labour Households
Number of Sampled Households	229	301	530
Number of Indebted Households	216	274	490
Percentage of Indebted Households	94.32	91.03	92.45
Average Amount of Loan Per Indebted Household (In ₹)	51324.07	60178.83	56275.51
Average Amount of Loan Per Sampled Household (In ₹)	48410.48	54780.73	52028.30

Source: Field Survey, 2015-16.

Note: AL-Agricultural Labour Households, NAL-Non-agricultural Labour Households.

The distribution of loans across different credit sources is shown in Table 2, which highlights a heavy dependence on non-institutional agencies. On average, 82.67 per cent of total borrowing is

sourced from informal channels, while only 17.33 per cent is obtained from institutional sources. Among non-institutional sources, large farmers (40.73 per cent) and moneylenders (35.17 per cent) constitute the dominant creditors. This pattern reflects the limited accessibility of formal credit institutions for rural labour households, primarily due to lack of collateral and procedural constraints (Singh & Singh, 2016). The reliance on informal sources exposes borrowers to exploitative practices and high interest rates, thereby intensifying their debt burden.

**Table 2:** Loan Incurred from Different Credit Agencies (Mean Values, in ₹)

Sources of Loan	AL	NAL	All Labour Households
<b>Non-Institutional Agencies</b>			
Money-lenders	10065.50 (20.79)	24561.46 (44.84)	18298.11 (35.17)
Large farmers	28820.96 (59.53)	15382.07 (28.08)	21188.68 (40.73)
Traders	3580.79 (7.40)	2358.80 (4.30)	2886.79 (5.55)
Relatives and friends	441.05 (0.91)	784.05 (1.43)	635.85 (1.22)
Sub-total	42908.30 (88.63)	43086.38 (78.65)	43009.43 (82.67)
<b>Institutional Agencies</b>			
Commercial banks	3842.80 (7.94)	9916.94 (18.10)	7292.45 (14.02)
Other societies or banks	1659.38 (3.43)	1777.41 (3.25)	1726.42 (3.31)
Sub-total	5502.18 (11.37)	11694.35 (21.35)	9018.87 (17.33)
Total	48410.48 (100)	54780.73 (100)	52028.30 (100)

Source: Field Survey, 2015-16.

The analysis of indebtedness by interest rates, as depicted in Table 3, reveals that a substantial proportion of loans is contracted at high interest rates. About 38.21 per cent of total borrowing is undertaken at interest rates ranging between 22 to 28 per cent per annum, while an additional 26.19 per cent is borrowed at rates between 15 to 21 per cent. Overall, more than 70 per cent of total loans carry interest rates above 15 per cent per annum, significantly constraining repayment capacity. A

relatively small proportion of loans is obtained at concessional or zero interest rates, indicating limited access to affordable credit.

**Table 3:** Loan According to Rate of Interest (Mean Values, in ₹)

Rate of Interest (Per cent, Per annum)	AL	NAL	All Labour Households
0	5301.31 (10.95)	4051.83 (7.40)	4386.79 (8.43)
1-7	2073.36 (4.28)	3428.57 (6.26)	3088.68 (5.94)
8-14	4296.94 (8.88)	4621.26 (8.44)	4416.98 (8.49)
15-21	15227.08 (31.45)	12504.32 (22.82)	13626.42 (26.19)
22-28	16878.60 (34.87)	22128.57 (40.40)	19881.13 (38.21)
29 Above	4633.19 (9.57)	8046.18 (14.68)	6628.30 (2.74)
Total	48410.48 (100)	54780.73 (100)	52028.30 (100)

Source: Field Survey, 2015-16.

**Table 4:** Loan Incurred for Different Purposes (Mean Values, in ₹)

Purpose of Loan	AL	NAL	All Labour Households
Marriages and other socio-religious ceremonies	15183.41 (31.36)	20159.47 (36.80)	18209.43 (35.00)
House construction, addition of rooms and major repairs	4585.15 (9.47)	3272.42 (5.97)	3839.62 (7.38)
Purchase of consumer goods	9432.31 (19.48)	15311.63 (27.95)	12516.98 (24.06)
Purchase of durables	5848.47 (12.09)	5249.17 (9.58)	5473.58 (10.52)
Health care	4300.00 (8.88)	4341.20 (7.93)	4296.23 (8.26)
Purchase of livestock	8908.30 (12.40)	6031.56 (11.01)	7390.57 (14.20)
Education	152.84 (0.32)	415.28 (0.76)	301.89 (0.58)
Total	48410.48 (100)	54780.73 (100)	52028.30 (100)

Source: Field Survey, 2015-16.

The purpose-wise distribution of loans, presented in Table 4, indicates that borrowing is largely consumption-driven. The largest share of loans (35 per cent) is utilized for marriages and socio-religious ceremonies, followed by expenditure on consumer goods (24.06 per cent). Other uses include purchase of livestock, durables, healthcare, and housing-related expenditures. The relatively negligible share of loans for education (0.58 per cent) highlights the low prioritization of human capital investment. The dominance of unproductive borrowing reflects structural income inadequacies and contributes to persistent indebtedness, as such expenditures do not enhance repayment capacity (Singh *et al.* 2019).

**Table 5:** Determinants of Indebtedness of Rural Labour Households

Factors	AL	NAL	All Labour Households
Family size	0.012 <sup>NS</sup> (0.153)	-0.140 <sup>NS</sup> (-1.549)	0.101 <sup>**</sup> (1.727)
Number of dependents	0.179 <sup>*</sup> (2.288)	0.282 <sup>*</sup> (3.040)	0.267 <sup>*</sup> (4.550)
Education level of the decision maker in the family	-0.105 <sup>**</sup> (-2.091)	-0.033 <sup>NS</sup> (-0.719)	-0.036 <sup>NS</sup> (-1.079)
Income from subsidiary occupations	-0.045 <sup>NS</sup> (-0.874)	-0.050 <sup>NS</sup> (-1.092)	-0.034 <sup>NS</sup> (-1.071)
Ratio of non-institutional loan to institutional loan	0.252 <sup>*</sup> (4.841)	0.154 <sup>*</sup> (3.548)	0.175 <sup>*</sup> (5.325)
Expenditure of borrowed funds on socio-religious ceremonies	0.458 <sup>*</sup> (8.466)	0.568 <sup>*</sup> (12.712)	0.544 <sup>*</sup> (16.062)
R <sup>2</sup>	0.461	0.488	0.472

Source: Field Survey, 2015-16.

Note: Figures in parentheses indicate *t*-values.

\*Significant at 1%, \*\*Significant at 5%, \*\*\*Significant at 10%, NS: Non-Significant

The determinants of indebtedness, estimated through multiple regression analysis, are reported in Table 5. The results indicate that family size, number of dependents, ratio of non-institutional to institutional loans, and expenditure on socio-religious ceremonies have a positive and statistically significant impact on the level of indebtedness. In particular, the coefficient of expenditure on socio-religious ceremonies is highly significant, suggesting that social obligations play a critical

role in shaping borrowing behaviour. Conversely, education level of the household head and income from subsidiary occupations exhibit negative but statistically insignificant coefficients. The coefficient of determination ( $R^2 = 0.472$ ) indicates that approximately 47 per cent of the variation in indebtedness is explained by the included variables.

The findings demonstrate that rural indebtedness in Punjab is driven by a combination of structural economic constraints and socio-cultural factors. Limited access to institutional credit, dependence on high-cost informal lending, and the predominance of consumption-oriented borrowing collectively reinforce the cycle of debt among rural labour households.

## CONCLUSIONS AND POLICY IMPLICATIONS

The study reveals that indebtedness is both widespread and deeply entrenched among rural labour households in Punjab, with more than nine-tenths of the sampled households under debt. While the incidence is higher among agricultural labour households, the average loan burden is greater among non-agricultural labour households. A striking feature of rural credit is the overwhelming dependence on non-institutional sources, which account for the bulk of total borrowing and charge high interest rates, thereby exacerbating financial vulnerability. The predominance of consumption-oriented borrowing, particularly for socio-religious ceremonies and basic household needs reflects the inadequacy of income and employment opportunities. The econometric analysis further confirms that household size, dependency ratio, reliance on informal credit, and unproductive expenditure significantly increase the level of indebtedness. These findings indicate that rural indebtedness is not merely a financial issue but a structural outcome of economic insecurity, institutional gaps, and socio-cultural pressures.

In light of these findings, policy interventions should focus on strengthening institutional credit delivery and reducing dependence on exploitative informal sources. Expanding access to affordable and collateral-free credit through commercial banks, cooperative institutions, and microfinance initiatives is essential. Targeted financial inclusion measures—such as simplified loan procedures,

credit-linked livelihood programs, and interest subvention schemes—can enhance borrowing capacity for productive purposes. At the same time, stricter regulation and monitoring of non-institutional lenders are necessary to curb usurious interest rates and unfair practices. Enhancing income opportunities through rural employment generation, skill development, and diversification into non-farm activities can reduce the need for consumption-based borrowing. Social awareness programs aimed at rationalizing expenditure on ceremonies and promoting financial literacy can further help households make informed borrowing decisions. Together, these measures can contribute to breaking the cycle of indebtedness and improving the socio-economic conditions of rural labour households.

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