



The Problem of Indebtedness in Agriculture Sector in India: A Study of Causes and Effects

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Abstract— Actually, India is a land of villages and agriculture is the main occupation in rural areas. As we know, in the rural Indian environment, the issue of debt has long been seen as a problem rather than a sign of future success. This is primarily because rural household budgets, particularly those of small-holding farmers and all other farmers with low incomes, are no longer in deficit. A large number of studies on the issue of indebtedness in rural India have depicted the fact that in rural Maharashtra, Andhra Pradesh, Karnataka, Madhya Pradesh and Punjab farmers commit suicide due to the burden of huge debts every year. Some of the major causes of India's agricultural debt include the country's unpredictable weather or uncertainty of monsoon, the weight of previous debt, the long lag between farming income and expenses, the small size of land holdings, wasteful spending on social ceremonies, and a high rate of illiteracy. It is a well-known fact that there will be a risky consequence if debt is simply used to cover household budget deficits rather than being employed for worthwhile endeavors. In recent years, the average cost of agricultural production has risen and market prices of farmers' products are not more supportive. Moreover, initiatives taken by the government remain ineffective and beyond the truth. Here it is noteworthy to say that in the current scenario, both the borrower's and the lender's interests suffer because the amount of debt continues to rise over one's ability to repay it. As a result, the web of debts has become a harsh reality of the agriculture sector and farmers of rural India have to face a burden of debts in daily life. The NCRB data indicates that 2,96,438 farmers died due to suicide between 1995-2014 in different states of India. On the contrary, this data shows that a total of 11,290 farmers and agricultural labourers committed suicide in 2022 throughout India. The present research paper is a modest attempt to find out the causes and effects of agricultural debts in India.



Keywords— agricultural indebtedness, farmers, rural areas, small land holdings, farmers suicide.

I. INTRODUCTION

It is true that large landowners, traders, friends, family, and moneylenders were the main sources of agricultural financing at the time of independence. In some of the studies and statistical data collected by the governments after the freedom of India, it was found that up to 71.6 percent of rural credit was provided by moneylenders in 1951. The reason behind it was that farmers had no alternative option for obtaining money, which contributed to the money lenders' dominant position. Meanwhile, lenders were able to take advantage of the farmers in a variety of ways because of their complete reliance on the

money they provided. In the past, moneylenders charged exorbitant interest rates, ranging from 18 to 50 percent or higher. They frequently manipulated accounts to their advantage by forcing farmers to sell their produce at low prices and by failing to credit the account with the money that was returned and the interest that was paid. Moreover, land securities were frequently used as collateral for long-term loans, and moneylenders frequently used manipulation to seize the land. This number continued to rise, and the majority of rural farmers were trapped in an endless debt cycle at the start of independence, which made poverty and the expanding debt load even worse. As a result, the government has taken a number of actions to control

moneylenders' malpractice or operations. Keeping the fact in view, several pieces of legislation have been framed and passed by the Apex bodies.

II. MAJOR CAUSES OF INDEBTEDNESS

A large number of scholars and economists agree with the fact that there are a number of reasons why an Indian farmer accrues debt and keeps it there permanently. The rural area's socio-economic structure is what drives him to take out more and more loans. However, borrowing has nothing wrong with it, but it becomes a huge problem for the farmers who make little money from the farm; he needs money to meet his expenses. In his day-to-day life as a farmer, he encounters numerous challenges. Although borrowing is a widespread occurrence worldwide, Indian farmers are completely unable to repay the debt with their meager earnings or income. As a result, debt keeps increasing every year. Here are a few brief explanations of some of the reasons behind agricultural debt as:

Vicious Circle of Poverty: Farmers' poverty is the primary source of their debt. The cultivator's low revenue from his farm business is insufficient to support his household expenses, production needs, and weakness and disease, which forces him to borrow money. With his current income, he is unable to save anything. He must therefore borrow money for a number of reasons, including consumption, crop failure due to monsoon, floods, drought, and hailstorms, improving his property by digging wells, buying animals and equipment, and dealing with emergency situations. He is indeed impoverished as a result of his debt. Small farmers are trapped in a vicious cycle that leads to debt, poverty, and excessive interest rates. It is suggested that due to poverty, farmers must take out a new loan to settle his previous debt.

Ancestral Debts: This is an additional source of debt that is passed on from father to son, generation after generation, with no fair limitations. He borrows money from a moneylender to pay back inherited debt. As a result, the debt incurred for this reason and to meet his requirements keeps growing. According to the Agriculture Commission of India: "The Indian farmer is born in debt, lives in debt, dies in debt, and bequeaths debt." It is ignorance of the law that forces farmers to pay back their ancestors' debt because the debt of a deceased person only transfers to his heirs when they inherit the debtor's property and only to the extent of that property. Farmers believe that it is their social and religious duty to pay off their ancestral debts, and they view this as a significant duty.

Litigation Expenses: Another unpleasant characteristic of an Indian peasant that contributes to his poverty and unproductive debt is his desire for litigation. Farmers with

little education pay a hefty price for lawsuits. Long-running legal disputes may cost money and time, therefore, farmers are trapped in the web of debts.

Monopoly of Moneylenders: Agriculture's debt is also a result of mal-practices exercised by moneylenders. For farmers in rural areas, they are the sole source of finance. When there are no other organizations, moneylenders have a monopoly and work to keep farmers under their control. Farmers borrow money from moneylenders for unavoidable legal actions and marriages. They entice farmers to borrow money from them, impose exorbitant interest rates, maintain fictitious accounts, and seize borrowers' land after their debt has grown to a significant level. Because village money lending is like a web, he is always available to the poor farmers, which means that he is never truly free from the moneylender's hold.

High Rate of Interest: Additionally, the high interest rates force the farmers to take out loans. Although the debtor pays the creditor, the debt typically increases because of the high interest rates. The agriculturist frequently makes excessive repayments, not insufficient ones. The moneylender's practice of charging exorbitant interest rates and other unethical behavior that tends to prolong his debt.

Attitude Towards Life: The majority of rural residents lack the necessary motivation to move forward. In addition to having no present or history, they also have no future. The majority of people in rural areas seem to have this mindset. Farmers prioritize the now over the future and seek out any kind of loan to get through their challenges. They have observed that their father has led such a life, and since they do not see any promising future for themselves, they do not believe that they should alter their way of life.

Lack of Adequate Marketing System: However we claim that it is the era of technical development, nonetheless, lack of storage space, pressure from moneylenders to pay interest, and the demand for land revenue force farmers to sell their produce at a lower price and in a smaller market, and impoverished farmers must pay exorbitant prices for their food when they are in need. Because they can't wait long, farmers are forced to diehard their produce around harvest time. They are forced to borrow money at exorbitant interest rates when they need it. As a result, they are heavily burdened.

Rising Cost of Cultivation: The fact is that globalization and liberalization have actually caused a change in cropping patterns since the green revolution, moving away from staple crops and toward cash crops like cotton and oilseed that demand significant investments in contemporary inputs. In the changing scenario, growing cultivation costs, fluctuating food grain yields, declining net returns, and

growing commercialization debt are all contributing factors. Today debt is also increased by commercial farming.

Fragmentation of Holding: The cultivator's output from the land is insufficient to support the farmer and his family when the holdings are modest since the margin of safety is so thin. Farmers must incur debt as a result of this. While abundant produce in the best years allows small farmers to pay interest with difficulty and no room for principal, bad years, such as when livestock die, can result in debt.

Unproductive Expenditure: The majority of rural residents think that skipping social and religious events and ceremonies will damage their reputation with their neighbors. This incentivizes neighbors to borrow money during these periods. It is nearly universally accepted that taking out loans for these rituals is quite acceptable. Spending like this doesn't produce results. Farmers borrow money for these events and ceremonies without worrying about how they will pay it back. They believe that taking out these loans is perfectly acceptable, which leads to a rise in debt.

Excessive Burden of Population on Land: The strain on land is growing daily due to the population's rapid development, particularly in rural areas. As a result, per capita income has decreased. Their family's needs cannot be met by their income. Farmers are therefore compelled to borrow money.

Ignorance of the Farmers: The main barriers to the general advancement of cultivators are farmers' ignorance and illiteracy. They don't make long-term changes to their property to boost output. The laws of the land are unknown to them. Moneylenders and private lending organizations can easily defraud them. Since they are unaware of compound interest's effects, interest continues to accrue. The principal amount is even surpassed by the amount of interest accrued. This is the largest barrier preventing the growers from making progress.

Lack of Supporting Income: The majority of rural residents work in agriculture, which is frequently outdated. Most of these people need to supplement their incomes with other sources, such as fishing, dairy, poultry, beekeeping, etc., because it does not provide them with enough income. However, the scope and nature of these sources of income have not been sufficiently expanded to satisfy their increasing demand for more and more of these opportunities.

Failure to Provide for Deficiency: The law of diminishing return applies to agriculture, and new seeds and cultivation techniques are necessary to prevent ongoing soil exhaustion in the absence of manures and fertilizers. Due to his little plot's low output and the growers' acute poverty, he is unable to set up money for better crops and cow

deterioration. Moreover, given the unpredictability of the weather, the prevalence of cattle deaths, and the volatility of prices, agriculture, particularly the cultivation of cereals, is actually not a lucrative enterprise. If the Indian ryot continues to engage in this activity, it is not because it is lucrative but rather because it is a way of life for him.

Unfavourable Climatic Conditions: The frequent rain failures and famines that follow are another factor contributing to India's agricultural debt. The monsoon's whims are legendary. Because of this, agriculture is a very risky sector. Frequent crop failures brought on by drought or floods, hailstorms, locust invasions, fire, and high livestock mortality all contribute to agriculture's subpar performance. The smallholder can only avoid debt in prosperous years; in poorer years, he will borrow money for everything he needs, including clothing, food, cattle, and seeds.

Land Revenue and Rent: In addition to being too high for small farmers to afford, land revenue due to the government and tenancy land rent are set and must be paid even when productivity declines due to drought or floods. In order to fulfill these payments, peasants were once more compelled to take out loans.

Ceremonial Use of Loans: Another significant factor contributing to his debt is his careless borrowing. Even if the Indian peasant lives a miserable and austere existence, he is certainly prone to continue spending extravagantly. Caste banquets encourage family luxury, and they spend more money lavishly on pointless consumerism such as social festivities, marriage, decorations, funerals, *sradh*, and *kathas*. They don't anticipate or plan for the future, even when they harvest bountiful crops, they continue to show no concern for the future. Each of these has contributed significantly to the reduction in debt levels.

III. EFFECTS OF INDEBTEDNESS

The lives of Indian farmers are negatively impacted by high levels of agricultural debt on an economic, social, and political level. Farmers have to face very negative repercussions as a result of growing debt. The foremost terrible consequence is the suicidal tendency among farmers. The NCRB data highlights that in 2022, the farmers committed suicide as: the state of Maharashtra (4248), Karnataka (2392), Andhra Pradesh (917), Tamilnadu (728) and Madhya Pradesh (641). The harmful consequences of agricultural debts are: low standard of living, health issues, low productivity, suicide and some of the others are:

3.1 Economic Effects:

Actually, independent farmers are being replaced by a class of landless laborers due to agricultural debt. As a result, land is transferred from farmers to non-farmers. He has a great deal of love and affection for the farmers, yet they lose their property. Because non-agriculturists are unable to devote the necessary amount of labor to farming, this further reduces output. These farmers who lack land are forced to rely on others to support them. The majority of farmers own tiny farms, which lowers their salaries and quality of life. Landless laborers are required to provide free services to their creditors, particularly in cases where landlord loans have been obtained. The country's progress is hampered by the economic independence and enslavement of the farmers, who make up the majority of the population. Due to debt, farmers' income is mostly used to pay off previous debt, and agricultural development is frequently disregarded. As a result, farmers have limited opportunities to raise their economic standing. Due to their lack of access to essential inputs like irrigation and loans, small farms in India have also become unviable. Small and marginal farmers cannot embrace modern farming practices or raise their revenue levels if they are indebted. They are then unable to pay back the debt. Small farmers typically lose in both situations, receiving a low price for their produce but paying a high price for inputs. Consequently, the farmers are negatively impacted by the terms of trade. Farmers are able to market their produce because of their high debt levels, and their creditors call on them to sell their produce exclusively to them at reduced costs. Farmers are forced to do this because they owe money to the creditor, which forces them to buy seeds and other necessities at greater costs.

3.2 Social Effects:

In addition to making them fatalists and depressing their morale, it is also to blame for the declining standard of life, family instability, and growing poverty among the farming classes. Since moneylenders will take his entire production at reduced prices in exchange for loan agreements, he has little motivation to labor hard. A cultivator is bound in such a way that it is difficult for him to break free. A sheep of its fleece, he is aware that he will be easily sheared of his profits.

IV. CONCLUSION

Now we can point out that the Indian farmers become frustrated as a result of the heavy burden of debts. Therefore, it is a hard and harsh reality of farmers' life that remains trapped continuously in the cycle of debts. Consequently, suicide occurrences among farmers are rising day by day as a result of mental stress leading to

moral degradation and fatalist tendencies. The NCRB data shows that in 2022, a total of 11290 farmers committed suicide and recently, it is reported that a total of 479 farmers died due to suicide in Maharashtra in March and April 2025. It is suggested that the government's initiatives to uplift the farming class should be favourable and an effective legislation should also be framed and implemented to reduce the increasing burden of debts. Most of the scholars agree with the fact that the government should take remedial measures like settlement of old debts, reduction of dependency on local moneylenders and control of new debts mechanism.

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