ACHIEVERS IAS ACADEMY

Indian economy: Farm Loan Waivers

GS Paper 3: Economic development – Inclusive growth and issues arising from it; Issues related to direct and indirect farm subsidies.

A farm loan waiver was among the first steps taken by the three new governments in Rajasthan, Madhya Pradesh and Chhattisgarh, and has understandably set off a debate about its usefulness. Since 2014, there have been similar moves in Telangana, Karnataka, Andhra Pradesh, Maharashtra, Uttar Pradesh and Punjab, which are States run by various parties.

What is a farm loan waiver?

Farm loans may be crop loans or investment loans taken to buy equipment. Both farmers and banks reap a good harvest when all is well. But when there is a poor monsoon or natural calamity, farmers may be unable to repay loans. The rural distress in such situations often prompts States or the Centre to offer relief — reduction or complete waiver of loans.

What does the waiver do?

Agriculture in India has been facing many issues — fragmented land holding, depleting water table levels, deteriorating soil quality, rising input costs, low productivity. Add to this vagaries of the monsoon. Output prices may not be remunerative. Farmers are often forced to borrow to manage expenses. Also, many small farmers not eligible for bank credit borrow at exorbitant interest rates from private sources. When nature rides roughshod over debt-ridden farmers in the form of erratic monsoon and crop failures, they face grim options. Indebtedness is a key reason for the many farmer suicides in the country.

Loan waivers provide some relief to farmers in such situations, but there are debates about the long-term effectiveness of the measure. A loan waiver is only an element of immediate relief. It is an acknowledgment that farmers have been pushed into debt due to the systemic failures of the government.

Impact on the economy

Farm loan waivers eventually hurt farmers

Such loan waivers today account for 0.45% of FY19BE of states

figures in billion rupees

	FY15	FY16	FY17	FY18BE	FY18RE	Total	FY19BE GSDP	% of GSDP
Uttar Pradesh	-	-	-	360	250	366	14,889	0.78
Maharashtra	-	-	-	-	167	268	27,961	0.36
Karnataka	-	-	-	-	39	79	14,087	0.28
Punjab	-	-	-	15	4	46	5,182	0.82
Rajasthan	-	-	-	-	-	20	9,398	0.21
Andhra Pradesh	50	7	35	36	36	41	8,707	0.42
Telangana	42	40	40	36	32	-	-	-
Total	92	48	75	447	527	361	80,223	0.45

Notes: *FY=financial year; GSDP state GDP; BE=budget estimate; RE=revised estimate; Andhra Pradesh and Telangana had stagered their farm loan in 2014*

Sources: *State budgets, JM Financial*

- While the effect of increased public debt will play out over the long run, the increased interest burden due to higher debt will hit state finances immediately. Even if we assume a benign scenario, where debt waiver amounts to only one-fourth of all farm debt, as in the case of Uttar Pradesh, the aggregate interest payment burden of states will rise by 8% (over their 2016-17 levels). Interest payments of states are already quite high, and often eclipse their spending on important infrastructure areas such as roads and irrigation.

- The impact on state finances could have been justified had the waivers provided meaningful relief to India's distressed rural economy. But that is unlikely to happen since the poorest farmers in India typically rely on non-institutional sources of credit, as a previous Plain Facts column pointed out. Instead, as the experience of 2008 shows, farm loan waivers can discourage subsequent lending by banks in districts with greater exposure to the debt waiver, harming farmers over the long run.
- Banks might gain in the short run as their loan book gets lighter and they get rid of some non-performing assets. But such waivers and their anticipation in future would damage credit culture. It is not surprising that after the farm debt waiver in 2008, the drop in banks' agricultural bad loans or NPAs lasted for barely a year before rising sharply once again.

The Bill by All India Kisan Sangharsh Coordination Committee

The Bill, which has been developed by the All India Kisan Sangharsh Coordination Committee, incorporates two key elements of reform: a functional institutional credit system which is accessible and accountable to all cultivators, and protection from debt trap in bad years.

- It guarantees all farmer access to institutional credit; this covers not only land-owning farmers but also sharecroppers, tenants, adivasi and women farmers, and animal-rearers. It requires the registration of all cultivators and providing them Kisan credit cards. This is critical because marginal and landless farmers are mostly excluded from institutional credit, thereby putting them at the mercy of predatory lending by moneylenders and input dealers. Tenant farmers who lease land from other land owners are especially vulnerable.
- Second, it establishes farmers' distress and disaster relief commissions at the national and State levels, based on the model of Kerala's Farmers' Debt Relief Commission. Based on incidences of natural disasters, extensive pest attack and such calamities, the commission can recommend declaration of certain areas or crops as distress-affected in any particular year. Thereafter, it has the power to order measures of debt relief, which may include loan rescheduling, interest waiver, one-time settlement, discharge of debt in instalments, or, in an extreme situation, immediate discharge of debt. The State-level commission is also empowered to pass orders regarding non-institutional loans of distress-affected farmers.

Conclusion

The principle is that farmers who suffer losses due to circumstances entirely out of their control deserve to be protected. Given that agriculture is a key national enterprise, the concepts of limited liability and bankruptcy protection need to be adapted to the farming sector. This approach provides targeted protection to distressed farmers when they require it, rather than allowing debt, distress and suicides to accumulate until an election year. At present, crop insurance with its inadequate coverage and payout is unable to fulfil that role, but distress relief would include any payout from crop insurance. In addition to reforming the credit system, agriculture should be made profitable by ensuring fair remunerative prices, lowering the cost of cultivation, and promoting viable farmer collectives and sustainable models of agriculture.

Previous Year Questions

1. What are the different types of agriculture subsidies given to farmers at the national and at state levels? Critically analyse the agricultural subsidy regime with reference to the distortions created by it. (2013)
2. "In the villages itself no form of credit organization will be suitable except the cooperative society." – All India Rural Credit Survey.
   Discuss this statement in the background of agricultural finance in India. What constraints and challenges do financial institutions supplying agricultural finance face? How can technology be used to better reach and serve rural clients? (2014)
3. Given the vulnerability of Indian agriculture to vagaries of nature, discuss the need for crop insurance and bring out the salient features of the Pradhan Mantri Fasal Bima Yojana (PMFBY). (2016)
4. How do subsidies affect the cropping pattern, crop diversity and economy of farmers? What is the significance of the crop insurance, minimum support price and food processing for small and marginal farmers? (2017)