Farm Loan Waiver

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. Essentially, the Centre or States take over the liability of farmers and repay the banks. Waivers are usually selective, only certain loan types, categories of farmers or loan sources may qualify.

For instance, in 2008, crop loans and investment loans were waived for marginal and small farmers (those with less than 2 hectares of land ownership); other farmers were only given a 25 per cent reduction.

Importance of Farm Loan waiver

- 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 these 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.

In Favour of loan waiver:

- Rising costs, drop in income and increasing incidence of indebtedness among small and marginal farmers manifested in a spate of suicides over the years. Until policies are not tweaked in favour of farmers to address their risks related to production, weather-disaster, price, credit and market, the loan waiver will become a periodical instrument for temporary relief.
- There are two key facets of the farmers’ crisis – falling income and indebtedness. As per NABARD’s All India Rural Financial Inclusion Survey, the major sources of income for farmers are cultivation, wages (as labourers) and other allied activities. Data show that the monthly income of agricultural households from cultivation remained almost constant during the last four to five years (Rs 3,081 in 2012-13 and Rs 3,140 in 2016-17).
- Firms have always received debt waivers, though they are tactfully termed as “loan restructuring” or “one-time settlements”. Just as for firms, farms also need a reduction of debt burden, followed by a fresh infusion of credit, when their economic cycle is on a downturn.

Against Farm Loan Waiver

- Loan waiver helps a minority and excludes landless. That is because it benefits only those farmers who have taken loans from institutional sources. Last NSSO survey of 2013 showed 52% of agriculture households were indebted but only 60% of those had taken loans from institutional sources. This means, only 31% agriculture households (60% of
52% indebted households) are likely to benefit from loan waiver.

- Loan waivers have “reputational consequences”; that is, they adversely affect the repayment discipline of farmers, leading to a rise in defaults in future.
- Earlier debt waiver schemes have not led to increases in investment or productivity in Agriculture.
- After the implementation of debt waiver schemes, a farmer’s access to formal sector lenders declines, leading to a rise in his dependence on informal sector lenders; in other words, waivers lead to the shrinkage of a farmer’s future access to formal sector credit. This is because, after every waiver, banks become conservative in issuing fresh loans to beneficiaries, as they are perceived to be less creditworthy.
- It also increases the NPAs (Non-Performing Assets) of banks.
- For the government, loan waivers not only increase the fiscal deficit and interest burden but also limit its ability to undertake productive capital expenditure in the agriculture sector which affects the long-term growth in the sector. So far, loans amounting to over Rs 1.5 lakh crore has been waived off.

**Way Forward:**

While loan waiver schemes are like a band-aid on a wound, it is the larger agrarian distress that demands urgent policy attention.

Unless there are steps ‘to raise productivity, reduce costs of cultivation by providing quality inputs at subsidised rates, provide remunerative prices following the recommendations of the Swaminathan Commission, ensure assured procurement of output, expand access to institutional credit, enhance public investment for infrastructural development, institute effective crop insurance systems and establish affordably scientific storage facilities and agro-processing industries for value addition’, farmers will continue to be bonded to low-income equilibrium and repeated debt traps.