



Examining farm loan waivers

Posted at: 26/01/2019

The solution lies in better schemes that ensure universal coverage for small, marginal and medium-sized farmers

- According to reports, the Central government is discussing a scheme to waive outstanding farm loans in the aftermath of widespread farmers' protests between March and December 2018 .
- The pitch for waivers among States has added to the pressure on the Central government for a nationwide farm loan waiver.

Divided opinion

- Economists and bankers are sharply divided on whether farm loan waivers are desirable.
- One section of economists and hard-nosed bankers argues that loan waivers represent poor policy for a variety of reasons.
- These arguments need careful and critical assessment.
- To begin with, there have only been two nationwide loan waiver programmes in India after Independence: in 1990 and 2008.
- Agricultural NPAs began to rise again after 2015.
- There is enough evidence to suggest that this rise was not the result of any moral hazard; it was real, policy-induced and a direct consequence of acute agrarian distress that spread across rural India after 2015.
- In particular, the demonetisation of November 2016 aggravated already brewing agrarian distress by sucking cash out of the rural areas, crashing output prices and disrupting supply chains.
- First, farmers are most disciplined in their repayment behaviour.
- In September 2018, agricultural NPAs (about 8%) were far lower than in industry (about 21%).
- Furthermore, agricultural NPAs were on a continuous decline between 2001 and 2008.
- The rise of agricultural NPAs, from 2% to 5%, is no evidence for indiscipline in farmer repayment behaviour.
- The second argument — that loan waivers do not promote investment or

raise productivity — is a bit absurd because nowhere has investment or productivity figured as the official objectives of these schemes.

- The third argument — that loan waivers shrink access to formal credit sector for farmers — is only partly true.
- For every economic enterprise, it is only natural that when the bottom-line shrinks, a reduction of debt burden becomes inevitable.
- The demand for loan waivers in India is absolutely logical when viewed from such a standpoint.
- On the other hand, to consider loan waivers as a panacea for the agrarian distress would also be wrong.

Conclusion

- Finally, 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 affordable scientific storage facilities and agro-processing industries for value addition', farmers will continue to be bonded to low income equilibrium and repeated debt traps.

The Hindu

