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In February 2018, Rajasthan government announced a one-time crop loan waiver for small and marginal farmers and land revenue exemption. This will cost Rs 8,000 crore to the state exchequer.

Background:

- Agriculture loan waivers are not a recent phenomenon in India.
- Colonial era:
  - Famine Commissions were appointed which recommended that agricultural loans could be advanced.
  - On their recommendation the Usurious Loan Act, 1918, was enacted which authorized the Judiciary to relieve the debtors of the liability to pay excessive interest.
- Central Debt Waivers:
  - In the independent India, the alarming levels of indebtedness resulted in the first loan waiver decision taken in 1990 and the Agriculture and Rural Debt Relief Scheme was approved. The scheme was implemented during 1990-91.
  - In 2008, UPA government announced an Agricultural Debt Waiver and Debt Relief Scheme, 2008.
- Recently announced State Loan Waivers:
  - In June 2017, Maharashtra Government announced agricultural loan waiver which is expected to benefit 8.9 million farmers and which would cost Maharashtra Exchequer Rs. 340 billion.
  - In 2017, UP Government announced that it would be financing the loan waiver from its budgetary resources. Karnataka has also announced a debt waiver to the tune of Rs. 81.7 billion for farmers availing loans from co-operatives.
  - The latest to join is Rajasthan, which has announced waiver of all farm loans up to Rs. 50,000 per farmer.

Arguments in favour:

Following arguments are given by some in favor of granting loan waivers:

- Objective of Loan waiver is to provide relief to the ailing rural economy and bring some respite to the distressed farmers as a large population is dependent on agriculture.
- Farmer suicides are rising and one of the main reasons is indebtedness. Nothing is more important than saving the life of a farmer and thus one shouldn’t question loan waivers.
- Also if the government can give tax sops to industries corporate and units setup in special economic zones then why can’t it waive off the loans of farmers who are at the base of food security.

Arguments against:

But various experts like former RBI governor Raghuram Rajan and committee’s (such as the CAG performance audit of the Agricultural Debt Waiver and Debt Relief Scheme, 2008 and expert group headed by Radhakrishna on indebtednesss) have criticized agriculture loan waivers on various grounds.

A. Negative effect on economy:

1. Rising NPA’s:
   - This scheme had made people unenthusiastic about repaying their loans in anticipation of future write-offs esp. when assembly elections are due.
   - This has increased the rate of non-repayment and thus has contributed to the rise of non-performing assets (NPAs) which is not good for economy.
   - In 1990, there was a loan waiver by the VP Singh government, and it took almost nine years for banks to recover from this scheme worth Rs10000 crore.

2. Leads to fiscal deficit:
   - Loan waivers cost tax payers. For instance, about Rs. 525 billion was spent on the loan waiver of 2008, as per the International Council for Research on International Economic Relations.
   - This increases government’s fiscal deficit.

B. Might be good for individual farmers, but not for agriculture:

We should ask this question that, is this scheme the best possible way to address the issues of agrarian crisis? Would the loan waiver scheme help to reduce farmer suicides?

1. Non-productive use of credit:
   - CAG report found that many beneficiaries took loans for non-agricultural purposes. About Rs 20.5 crore were spent on debt waivers for these kinds of loans.
   - Farmers can never repay a loan if a major portion of loan credit is used for unproductive purpose.
   - So, the loan waiver scheme might be good for ‘farmers’ as individuals, but not for ‘agriculture’.

2. Priority Sector lending targets not met:
   - Major reason for banks to violate priority sector and other guidelines is the non-repayment of loans by farmers.
   - Thus banks will become reluctant in future to give loans for agriculture sector.

3. Over-emphasis of credit:
   - Credit in agriculture has been given too much importance while other factors responsible for productivity (like ensuring irrigation, timely inputs and technology) and improved market opportunities have been ignored.
According to the Radhakrishna committee, various factors contribute to this crisis of indebtedness such as "stagnation in agriculture, increasing production and marketing risks, institutional vacuum and lack of alternative livelihood opportunities."

4. **Short-term:**
   - The benefits of the loan waiver scheme would be very short-term, and the same problem of indebtedness might arise in the next season also.
   - This is because due to the lack of a long-term solution in this approach, the productivity and the yield will not increase and many farmers would continue to be defaulters.
   - We should remember that “Loan waiver is an attempt to cure the symptom and not the disease.”

**C. Flaws in the concept of loan waivers:**

Even if we believe for a moment that loan waiver is a solution then we should realize the concept is flawed due to various reasons:

1. **Land holding is the wrong criteria:**
   - The scheme aims to help the small and marginal farmers, but the definition on the basis of the size of land holdings does not make much sense.
   - According to MS Swaminathan, in rain-fed, arid, and semi-arid areas, income from agriculture is very uncertain even for farmers having 4 or 5 hectares of cultivatable land and is closely dependent on the behavior of monsoon.

2. **Discouraging the honest farmers:**
   - Loan waivers create a moral hazard by effectively punishing those who repay their loans.
   - The farmers who have invested out of their savings rather than borrowings would be deprived of the benefit of this scheme.
   - Also, the scheme covers only crop loans, and farmers who have invested in infrastructure would be discriminated against even though they have to pay back the loans out of crop yields only.

3. **Ignores informal source of credit:**
   - Informal sources of credit outweigh the formal sources in case of small and marginal farmers.
   - Still, the problem of indebtedness due to informal sector lending is not considered in the loan waiver scheme.

4. **Ignores landless laborers:**
   - Landless laborers are even more vulnerable as they do not even have the option to sell land. There is no respite for the landless laborers in the loan waiver scheme.

**D. Flaws in the implementation of loan waivers:**

Following below are the findings of the CAG performance audit of the Agricultural Debt Waiver and Debt Relief Scheme, 2008 –

1. **Inclusion, exclusion errors:** 13.5% of the eligible beneficiaries were excluded from the list of eligible farmers, while 8.5% of the beneficiaries were not eligible for debt waiver.

2. **Ineligibility to get fresh loans:** In almost 6% of the audited accounts, farmers were not extended relief in accordance with their entitlements. I.E. they were deprived of their rightful benefits.

3. **Extension of fresh credit:** After extending benefits under the scheme, the lending institutions were required to issue certificates to farmers to ensure that the farmer was eligible for applying for fresh loans from the institution. However, in many cases it was not done. And due to this, farmers could not apply for a fresh loan.

4. **Monitoring:** There was Lack of independent checks by RBI and NABARD on the lending institutions.

**E. Political aspect:**

1. **Vote-bank politics:** It is just a political move to get votes. It’s a perfect example of vote-bank politics.

2. **Politically unsound:** This scheme has created a discontent among the non-beneficiary group of farmers and amongst most of the urban people.

**WAY AHEAD:**

**Medium to Long term measures (Alternative use of resources):**

- There could have been an alternative use of the huge amount of government resources that have been spent on the loan waiver scheme, to help all the farmers in general that are suffering due to the ‘Agricultural Crisis’.
- The budget should give a large push to core issues like public investment in infrastructure, land and water management including rainwater conservation and watershed development, research and extension, price stabilization etc, to make cultivation viable and profitable.
- Various studies have shown that improved accessibility due to investment in rural roads gave the farmers a chance to learn about modern agro-economic practices, improved the accessibility to input markets and has reduced transportation costs.
- Apart from this, crop insurance should emerge as the main vehicle to cope with rural distress. Instead of stressing on loan waivers, government should ensure proper implementation of Pradhan Mantri Fasal Bima Yojana.

**Short term measures:**

The above recommendations are long term measures, and even if indebtedness is not the major cause of agrarian crisis and is just a symptom, it is still a cause of distress. Thus there has to be a short term measure to take care of this issue.

- ‘Report of Expert Group on Indebtedness’ chaired by Radhakrishna has recommended (i) Rescheduling of Loans of Farmers Affected by Natural Calamities and (ii) Formalization of Informal Credit to solve the problem of rural indebtedness are very relevant.
- An attempt can be made to restructure bad farm loans (particularly in regions where farmers’ suicides have taken place), as in the case of industry, before writing them off.