

Farm Loan Waiver: Need for Framers Upliftment in View Agricultural Scholars**Ritik Chawla and Chandan Kumar Rout**

PG, Department of Horticulture, Lovely Professional University, Phagwara, Punjab

SUMMARY

The Loan Waivers are generally undertaken under the motive of relieving the distress of farmers so that the economic situation of the farmers is improved and the rate of farmer suicides in India can be reduced. However, it can be a problematic decision especially for States with already high levels of debt like Madhya Pradesh. While the simple assumption is that the farm loan waivers would help reduce the farmer suicide rates and improve, at least temporarily, the economic situation of farmers in debt and distress, there has been no conclusive evidence to back the assumption substantively. The agrarian distress has been observed since 1990 in different parts of the country shows that there is increase in number of suicide cases of Indian farmers, which were continuing in a vicious circle of poverty and indebtedness. As its solution, the government of India announced an important policy for rural credit which is known as Agricultural and Rural Debt Relief (ARDR) Scheme in 1990 and Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme on 29th February 2008. The scheme aimed to reduce the debt burden of the farmers and help them qualify for fresh loans. But in India, politicization works as a hurdle in the institutional rural credit and debt waiver for agriculture. In this article, we will study and discuss about need of loan waiver in uplifting agriculture sector. However, loan waiving is not a permanent solution to uplifting the farming community. Instead of waiving, the Government should provide a fix rate to the agriculture sector so that the farmers are not forced to take loans and in turn, the government does not have to waive the loan.

INTRODUCTION

Farm Loan Waiver means whatever the loans that have been taken by the farmers from banks and which they are not able to pay, those loans should be waived off which means that the farmers should be no longer required to pay back the loans. In other words, Farm loan waiver is the waiving in which the state or central government uses the liabilities of the farmer to repay the banks on their behalf. These waivers are selectively categorized means only certain types of loans may qualify. Recently, the UP government has decided to write-off debts of farmers up to 36,000 crores and this was limited only to small and marginal farmers. Similar demands have been made for loan waiving in Maharashtra and Karnataka due to poor productivity and heavy losses. The Madras High Court acted on the state government and directed that loan waiving should be offered to all the farmers in the state as a case of judicial Overreach. The new Maharashtra government has announced a loan waiver for farmers who had up to Rs. 2 lakh in pending loans between April 1, 2015 and March 31, 2019, (Insights editor 2020, January 4). Generally, the Loan waivers would help to reduce the rates of farmer suicide and improve, at least temporarily, the economic situation of farmers in debt and distress, there has been no conclusive evidence to back the assumption substantively, (Nand and Omar). Farm loan waiver is not a permanent solution, it is a temporary solution to get relief to farmers but it is unlikely to increase their problem by getting loan from non-institutional agencies which has high interest rates to meet their financing requirements, (Bhoi and Dadhich, 2019). However, loan waiving has taken political move just to get votes. Loan waiving can either be beneficial or non-beneficial it depends upon the amount of land the farmer has. But there is no much benefit to marginal farmers who has less than two hectares of land who actually need the schemes of Loan waiving. Reports say that only 10% of farmers gain from loan waivers that are announced by the Governments. The expectation of agricultural loan waivers is increasing year after year as states get closer to state elections or the country gets closer to the Lok Sabha elections, (Manda and Yamijala, 2019).

Background

- India has had a mixed experience when it comes to loan waivers. The first Indian experience with farm loan waivers was nearly three decades ago when in early 1990, the V.P. Singh National Front Government, announced a debt relief scheme to farmers at a Fiscal cost of Rs.10,000 crores, (Nirmal, 2017).
- This experiment was followed by the Manmohan Singh Government, announcing the ADWDR Scheme in 2008, just before the 2009 general elections, pointing towards populism.

- In 2017, UP Government had waived off loans amounting to approx Rs. 30,000 crores. They have also written off loans amounting to Rs. 6,000 crores given to small and marginal farmers which have turned into NPAs (Non Performing Assets). As per estimates, the impact will be around 2.6% of state GDP.
- Also states like Punjab and Maharashtra have resorted to farm loan waivers to placate the demands of the farmers.

Why Is Farm Loan Waiver Important? (Farm Loan waivers- Insights. Retrieved from)

- Indian agriculture facing many problems like scattered holding of land, low productivity, poor soil quality, depleting ground water levels, high input costs such as seeds, fertilizers and machinery, monsoon problems.
- Farmers are not getting remunerative prices of their produce. Due to which they are forced to borrow loan for managing expenses.
- Also, many small and marginal farmers are ineligible for bank credit having higher rate of interest from non-institutional/private sources.
- Indebtedness is the main reason of farmer suicides. So, to avoid farmers suicides waiving of loan is necessary to overcome indebtedness.

Need of Farm Loan Waiver

In India, agriculture sector plays an important role to generate national income and the majority of India's population depends upon agriculture production for their livelihood. The ups and downs in agriculture sector directly affect the Indian economy, which can be seen during 1990s. This was the time, when the agrarian distress was found in different parts of the country. From 1990s to mid-2000s, Growth rates of agricultural production were lower as compared to 1980s. This was due to the withdrawal of financial institutions for financing in agriculture sector. This withdrawal was done by offering more protection to other commodities and by providing fewer subsidies as compare to the size of the agricultural economy. It resulted in an increase in the costs of inputs such as fertilizers, seeds, diesel, electricity, etc. and led to the unavailability of inputs to all farmers, mainly small and marginal farmers, (Raghav and Rajawat, 2016). The need of providing loan waivers arises due to following factors:-

- **Rainfed Agriculture:-** Around 52% of the farming area is still rainfed while the use drip and sprinkler irrigation method is limited to only 1.6% and 0.8% respectively.
- **Informal credit disbursal:-** Non-institutional credit to agriculture sector is approximately 40% and it not only has exorbitant interest rate but is also exploitative which results in decrease in farm income and increase in suicide of farmers.
- **Skewed procurement:-** Physical procurement by FCI (Food Corporation of India) is conducted only for rice and wheat leaving out other crops.
- **Farmer suicides:-** Farmer suicides are a very disturbing outcome of the failings of agricultural policy and a blotch on the face of a nation making advances in space. Maharashtra alone reported 852 farmer suicides in the four months between January to April in 2017, according to Government data. This means an average of seven farmer suicides were reported every single day during this period.
- **Decline in productivity:-** Farmers are facing the challenges of failing productivity. The farmer's productivity decreases due to the various reasons like inappropriate implementation of insurance scheme, improper modernization of agriculture system, inappropriate implementation of credit system, lack of data availability with the government, lack of inadequate infrastructure and improper monsoon. Their ability to pay loans is very less as the profits are almost non-existent. They are thus reduced to penury and selling their lands at sub-optimal rates. This vicious cycle is further fueled by underdeveloped marketing networks leading to improper supply of inputs which increases costs and declines productivity further.

The immediate factors which trigger the demand of loan waivers are as follows:

- **Minimum support price (MSP):-** Only 22 crops are considered cover under this scheme. Only 10% of the farmers are aware of the existence of this scheme. Also, the majority of the farmers are affected who sell commodities directly to the market when market prices fall below MSP.

- **Compensation:**-State compensation to farmers via National Disaster Response Fund (NDRF), State Disaster Response Fund (SDRF) falls short on the required amount during distress years which causes loan defaults.
- **Insurance:**-As there is less than 24% of the gross cropped area (from the target of 40%) is considered in the government-run crop insurance schemes immobilizing the farmer's capacity to realize revenues.
- **Low agriculture income:**-Due to low agriculture output and income farmer unable to fulfill his livelihood and family expenses which forces him to get a loan.
- **Low scale landholdings:**-Low scale landholding of farming community also forces them to get a loan to fulfill their family needs. As 85% landholdings of country is below 2 hectares.
- **Weather and market risks:**-Crop failures due to weak monsoon or other natural phenomenon like droughts or floods and limited availability of Minimum Support Price on selective crops adds to the distress.
- **Non-institutional borrowing:**-Survey done by NSS states that there is increasing non-institutional sources faster than institutional sources in giving loan because of their high interest rate they find it as a new business.

PROS: The main pros for farm loan waiver are as follows:(<https://pinterview-in.medium.com>)

- In India agricultural crops are totally dependent on monsoons. Due to climate change, natural calamities farmers are in big loss and yield of produce has been affected and decline. Due to which farmers will get trapped in debt. So, it's a good step to waive farm loans.
- Many farmers leaving the agriculture sector and migrating to the cities and even some farmers are selling their lands to big land holders at very low rates for their survival. If this situation continues, there will be a problem of food scarcity. So to overcome this situation, Government need to gain the farmers trust. So, to attract the farmers towards farming by carrying low interest loans schemes.
- Many farmers take money from non-institutional sources like moneylenders or big land holders at a very high rate of interest and they face the problem of indebtedness. Farm loan waiver schemes will help these farmers to take the money from institutional sources instead of other sources.

CONS: The main cons for farm loan waiver are as follows:

- Loan waiver schemes promotes credit indiscipline ^[8]. Even the farmers who are able to pay may not repay their loans in the expectation of a waiver. They turn into deliberate defaulters hoping that their loans will be waived sooner or later.
- Big farmers take too much loans even if there is no need. Therefore, this will harmful for the small or marginal farmers who are genuinely need loans ^[8].
- The main limitation of loan waiver is that in many situations, one household can have multiple loans from different sources also in the name of other family members which entitles it to multiple loan waiving ^[1].
- Loan waivers are used by political parties as a tool to influence voters during elections, despite proven long-term ineffectiveness of this measure.
- A Niti Aayog study highlighted the fact that about three-fourth of the farm loans in some states were being used for consumption rather than meeting agriculture needs without any evidence in the increase in investment and productivity of beneficiary household.

Issues Associated With Farm Loan Waiver

Now, we know that, in short run Farm Loan Waiver will be helpful for the farmers because they will not be ask to pay back the loans which the farmers have taken and hence, they can use that money to increase their production etc. On the other hand, in the long run it is not beneficial either for the farmers or for economy or for the banks and financial institutions. Therefore, some of the issues which are associated with Farm loan waiver and how it can be a problem for the economy as a whole are as follows:

- It puts a significant burden on state budgets as banks will have to be compensated for the losses they incur.
- Even those farmer's who are capable of paying back the loans, benefit from this, thereby encouraging willful default.
- This also amounts to a moral hazard.

- It leads to wastage and misuse of money. Farmers borrow money but don't utilize it productively because they know that loans will be waived off.
- Loan waiver covers a small portion of farmers only as a major chunk still borrows from non institutional sources (i.e. from money lenders).
- A lot of borrowing by farmers, which is waived off, is for non-farm purposes also.
- Farm loan waivers are actually the symptoms of another major issue. The real problem is populist lending which pushes farmers in debt trap.
- Farm loan waivers increase the Fiscal deficit of the Government.
- Providing loan waivers in some states promote farmers from other states also demanding farm loan waiver.
- Debt waiver may lead to reduction in productive investments and more spending on consumption.

Sustainable Solutions for Farm Loan Waiver:

There are some solutions that are actually related to improving the position of the agriculture in our country and can eliminate the need of loan waivers.

- Switch to non farming activities like dairy, animal husbandry etc. along with farming.
- Improved technology, expansion of irrigation coverage, provide structural reforms are appropriate measures for raising productivity and farmer's income.
- e-NAM (e-National Agriculture market)-so that farmers don't have to sell at distress sale.
- Contract farming.
- Crop diversification.
- Mechanization of agriculture.
- Strengthen Land leasing

CONCLUSION

From the above study, the result is concluded that Farm Loan Waiver is not a permanent solution to agriculture sector. It is a temporary solution which provides some relief to farmers when they are in a distress situation but all the farmers are not getting benefit from this scheme. Study done by World Bank have showed that for Indian agriculture sector Farm Loan waiver is not a permanent solution. In India, around 86% of the farmers are small and marginal farmers, as per NITI Aayog, the farmers who avail themselves of institutional loans are very less and in some states about 25% only because these waivers are selectively categorized and only certain types of loans may qualify. The announcement of loan waivers during the time of election should be prohibited by the election commission to stop this populist practice because if they are waiving the loan, then the moral of the farmers who were giving loan from their time goes down. They feel that the loan has to be waive in the last, so why are we paying on a timely loan, then it is happening that even those who have money stop paying the loan. As many studies reported that Loan waiving is more beneficial for large farmers who have much more land and able to pay back the loan to banks. There is no much benefit to marginal farmers who has less than two hectares of land who are actually need the scheme of Loan waiving as many small and marginal farmers are ineligible for bank credit having higher rate of interest from non-institutional/private sources. So, there should be some kind of mechanism for waiving loan like those farmers who have 4 to 5 hectares of land or if they are already a rich farmer their loan should not be waived. Only those farmers' loans should be waived which have less than 2 hectares of land. The Government should pay more attention to the structural reforms of the farmers like irrigation related, marketing related or soil health related, rather than waiving loans. Because if the farmers income will increase they definitely will be in a position to repay back their loans. So, the need of Farm Loan Waiver will not arise. At last, study and discussion revealed that the Loan waiver Scheme must be based on only when there is a problem of natural calamities like drought, earthquakes and the problem of crop failures arises due to poor monsoon.

FUTURE PROSPECTS

- To remove the need of announcing loan waivers for the whole state, the government must give importance only on the disadvantaged districts that are suffering from low income and climate vulnerability through special programs.
- Government must ensure procurement and price stabilization mechanisms for other commodities also apart from wheat and rice.
- The announcement of loan waivers during the time of election should be prohibited by the election commission to stop this populist practice.
- The government may also provide fixed cash subsidy per acre instead of loan waivers. It can be done by digitizing and identification of plots as demonstrated by Rythu Bandhu scheme of Telangana government which would include all the farmers.
- Supportive Schemes should be launched. The Madhya Pradesh government launched a scheme i.e., Bhavantar Bhugtan Yojana which covers 8 kharif crops that assures affirmative action by the state. So, similar programs should be launched at national level covering majority of crops.
- Strengthen Land leasing- means people those who don't want to conduct the farming activities but if they have the farm land etc. then they can employ more people and give their land on lease to them and they can cultivate their lands.
- Restructuring loans- Banks can also restructure loans as done by NBFCs instead of waiving loans and this works by helping the farmers take loan for the next crop and they can start paying back both loans together which will have different tenures and also without affecting any state deficits.
- There is a need to ensure that crop insurance schemes have a wider coverage and simple to understand to deepen their penetration. Pradhan Mantri FasalBima Yojana (PMFBY) is a welcome step in this regard but farmers should be made aware of it by Krishi Vigyan Kendras and Agriculture Extension Officers.
- There must be a gradual change to modern agricultural practices such as drip and sprinkler irrigation, mechanization, organic farming, etc and farmers must be given incentives to adopt and propagate the same.
- Need to develop credit products which are customized according to cropping and rain pattern of that particular region and regional banks of that particular area must help in this endeavor so that one size fits all approach would be minimized.
- The need for central and state government to work together is critical in order to bring back the agriculture sector and not only make it sustainable but also lucrative.

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