



ISSUES OF FARM LOAN WAIVER - GS III MAINS

Q. Farm loan waivers are a temporary relief and it neither does the purpose to farmers nor to the government. Bring out the measures alternative to the loan waivers to improve farming in India. (15 marks, 250 words)

News: *MSP, loan waiver and crop insurance, crucial issues for farmers*

What's in the news?

- Recently, the Telangana Government has issued an Order releasing modalities for the farm loan waiver scheme. Under this initiative, short-term agricultural loans up to Rs 2 lakh will be directly credited to eligible farmers' bank accounts.

Reasons for Farm Loan Waiver:

1. Skewed Procurement:

- Physical procurement by FCI is conducted only for rice and wheat leaving out other crops.

2. Predominance of Rainfed Agriculture:

- Around 52% farm area is still unirrigated and dependent on rainfall, while drip irrigation and sprinkler is limited to 1.6 per cent and 0.8 per cent families respectively.

3. Informal Credit Disbursal:

- Non-institutional credit to agriculture is around 40%, which not only has exorbitant interest rates but also is exploitative resulting in reduced farm incomes and increased farmer suicides.

4. Problem of Surplus or Cobweb Phenomenon:

- After the prices of an agricultural commodity shoot during a season of scarcity, farmers resort to boosting the production on the premise of the pre-existing demand and prices, leading to a problem of plenty in the next season when prices of the same commodity are at a low.

5. Compensation:

- State compensation to farmers via State Disaster Response Fund (SDRF), National Disaster Response Fund (NDRF), during a distress year falls short of the required amount, which causes loan defaults.

6. Insurance:

- Less than 24% of the gross cropped area (against a target of 40%) is covered under government-run crop insurance schemes crippling farmer's capacity to realize revenues.

Concerns of Loan Waiver:

1. Temporary Relief:

- Loan waivers are a temporary relief for farmers limited to one financial year and does not address the structural problems of agriculture.



2. Promotes Credit Indiscipline:

- Even those who can afford to pay may not repay loans in the expectation of a waiver. Farmers turn into deliberate defaulters in the hope that their loans will be waived sooner or later.

3. Strips Farmers of Other Benefits:

- Farmers defaulting in anticipation of waivers, lose out on other benefits too.
- For instance, accounts of many farmers anticipating waivers were substandard at the time of enrolment under PMFasalBimaYojana and, thus, the compulsory coverage was not extended to them.

4. Moral Hazard:

- Loan waivers create a moral hazard as they penalize those farmers who pay loans and also affect taxpayers.

5. Leads to Fiscal Deficit:

- Loan waivers make a dent in the finances of the government as it has to repay banks and higher fiscal deficits in future may not be offset by higher GDP gains, as per RBI report on State Finances.

6. Discourages Banks to Lend:

- By eroding credit discipline, loan waivers make banks wary of lending to farmers in the future, as it affects their balance sheets and affects their stocks in markets.

7. Decreases Capital Expenditure:

- Loan waivers affect state's capacity to invest in creation of capital assets and lead to crowding-out of private investment.

8. Cascades Indebtedness:

- Reduction in bank credit following waivers forces farmers to approach informal sector lenders, which increases indebtedness as such loans are expensive.

WAY FORWARD:

1. Short Term Measures:

a. Waiving only a Portion of Loan:

- Waiving only a portion of the loan instead of placing a cap on the quantum of loan waiver will be an improvement towards averting moral hazards.

b. Fixed Cash Subsidy per acre:

- Instead of loan waivers, the government may provide a fixed cash subsidy per acre, by digitizing and identifying plots, as demonstrated by RythuBandhu Scheme of the Telangana government, which would cover all farmers.



c. Prohibiting Loan Waivers during Elections:

- The Election Commission should prohibit announcement of loan waivers at the turn of elections to stem this populist practice.

2. Long Term Measures:

1. Crop Diversification:

- Combating credit risk in the farm sector rests also on crop diversification and cross-holding of risks between agriculture and allied activities, such as animal husbandry.

2. Tenancy Reforms and Land Consolidation and FPOs:

- Land consolidation and formation of Farmer Producer Organisations would give more bargaining power to farmers and when coupled with tenancy reforms, this would ensure legal status to tenants along with security of tenure.
- Kerala is the only State that has a tenancy law in place with an implementation mechanism.

3. Cooperative Farming and Push to Agro-processing Sector:

- Cooperative farming will allow small and marginal farmers to take the advantage of their family labor and allow economies of scale to kick in at lower thresholds, thus raising farmer incomes.