Agriculture Loan Waiver

- **Introduction**
  - The recent state election results clearly have sounded a warning to the present government. It has been stated that one of the reasons for these results has been the farmer distress and the announcement of loan waivers by the congress party
  - Soon after taking oath, the CM of Madhya Pradesh Mr Kamal Nath sanctioned waiver of farm loans up to ₹ 2 lakh, which was followed by the announcement of farm loan waiver in Chhattisgarh
  - Loan waivers basically refer to transfer of burden of debt repayment. The farmer who has taken a loan from institutional sources need not repay the loan as the government will be repaying on his behalf

- **Why there is agriculture distress**
  - More than 45% of the workforce is involved in the agriculture (some of which is disguised unemployment). The input costs are higher because of this. The mechanization on the other hand is very low
  - Indian agriculture is heavily dependent on the monsoon (53% of the land under cultivation is unirrigated) and it's an issue for the farmers when the rainfall in deficit as well as excess. In the last couple of years, the farmer has experienced both of these. Though to overcome this, the government has implemented the PMFBY (Pradhan Mantri Fasal Bima Yojana), implementation has been tardy
  - Though there are two efficient methods of micro-irrigation methodologies available, majority of the land under irrigation still traditional methodology of irrigation. The total agriculture/cultivable land under micro-irrigation coverage is only around 10 mn hectares as against the potential of around 70 mn hectares
  - **No fixed revenue or returns as**
    - The cost of inputs such as fertilisers, diesel etc have increased
    - The kharif crops market prices have been lower than the MSP announced
    - The farmers haven't been able to reap the benefits in the form of prices which is exhibited by facts such as
      - The food WPI has deflated for straight five months till November 2018
      - The food CPI has experienced deflation for two consecutive months ending November 2018
  - Land fragmentation
    - Between the first agriculture census (i.e. 1970-71) to the latest (i.e. in 2015-16)
      - The number of farm units have more than doubled (from 71 mn to 145 mn)
      - On the other hand, average size of the landholding has halved (from 2.28 hectares to 1.08 hectares)
  - **Agriculture Credit**
    - There are three sources of credit for the farmers. Under formal the most important ones are SCBs (Scheduled Commercial Banks) and Co-operatives. Under the informal source it is the PMLs (Private Money Lenders)

        - Marginal and Small farmers find it very difficult to get access to institutional credit as they do not have any kind of collateral to provide for
        - Small and marginal farmers account for 80%of the loans taken from the informal sector. Whereas the medium and small households account for 28% of the agricultural households and 60% of the formal credit
        - More than a third (i.e. 36%) of agriculture credit given to small and marginal farmers is through the money lenders who charge an interest rate of 24% to 48% per annum (in various states this has been one of the causes of the farmer debt trap and farmer suicides)
        - The universal loan waivers are questionable on the basis of equity, the marginal farmer is estimated to have a loan which is one fourth, one sixth and one tenth the value of outstanding loan of a semi-medium, medium and large farmer respectively
    - Demonetisation - this has disrupted the supply chain system in the agriculture sector

- **<u>History of agriculture loan waivers</u>**
    - The first such waiver was announced in 1990. The then government had waived off loans worth ₹ 10000 Cr
    - Apart from this the other biggest loan waiver has been by the central government in 2008, wherein loans of value ₹65000 Cr was waived off, about 1.35 of GDP
    - In the last nine years, the governments have waived off loans of value ₹ 89000 Cr to benefit 4.8 Cr
- If pan India loan waivers are announced, it's value will be 2% of the GDP
- **<u>Objectives of the loan waiver</u>**
    - To prevent farmer suicides
    - To provide relief to the farmers
    - To promote capital formation in the agriculture sector
    - To reduce the distress in the agriculture sector
    - Though it would increase the fiscal deficit, it would be offset by having higher GDP gains (as per RBI report, this is not proven)

- **<u>Loan waivers may dent the capex of the states (BS 19/12/18)</u>**
    - Since 2017, states cumulatively have announced a loan waiver to the tune of ₹ 1.2 tn. States going to elections next year such as Andhra Pradesh, Haryana and Odisha have a fair share agri credit, if these states also announce the debt waiver, the total amount waived off will be around ₹ 600 to 700 mn
    - Strings of loan waivers announced may lead to reduction in capex outlay by the states and defaults in the non-farm loans in rural areas. Apart from reducing the financial burden on the farmers, it is also expected to boost rural consumption
    - The states may opt to waive the debt over the years, still it is going to be very difficult for the states to find the alternative revenues to ease the additional financial burden of loan waivers

- **<u>Are the loan waivers helpful? (LM 21/12/18)</u>**
    - Eight states have waived off loan waivers worth ₹ 1.9 tn since April last year. Since Monday this week loan waivers worth ₹ 59000 Cr have been announced

- The question is whether debt relief is the right measure when the prices of agri commodities have been inadequate, the incomes are declining and there have been repeated droughts since 2014
- The loan waivers are a band aid solution which will provide a temporary relief and they do very little to solve the fundamental problem of rising costs and falling profitability in the agriculture sector
- Though waivers are popular, the application at the ground level is very difficult (as many a times these are conditional) for example
  - Loan waivers announced in Punjab and UP are applicable to farmers owning up to 5 acres
  - The cut-off date sometimes works against the farmers (because the farmers availing loan after the cut-off date will not be covered under the waiver)
- Another issue that makes loan waivers difficult is that these are not uniform across the states. For example, in Rajasthan the waivers were announced based on crop damaged, size of land holdings and harvest volume. In many other cases loans up to certain value have been waived and in some case loans of only small and marginal farmers have been waived off etc

- **<u>Impact of loan waivers (Arguments against loan waivers)</u>**
  - On the farmers
    - In some cases, the deserving farmers are not given loans as the bank managers who are privy to the promises of loan waivers will give the loans to other farmers
    - Farmers will take loans from the formal as well as informal sources. This is especially true for the small and marginal farmers. The government announcing a waiver will not reduce the entire burden of repayment on these households. 62% of the indebted households under the marginal farming had taken loans from the informal sources
    - It disincentivizes the farmers who had honestly repaid the loans
  - Banking Sector
    - The loan impacts the credit culture and create moral hazard
    - The banks also reduce the issue of loans for the farmers for the fear of repeated loan waivers and lower recollection. In case of Maharashtra the loans issued to the farmers during the Kharif season was less than half of the target set by the government. Apart from this the repayment of the loans by the states take some time and for this period there is higher pressure on the banking sector
    - The studies have shown that after each loan waiver has been announced, there has been a spike in the NPAs
  - On the government (both centre and state)
    - The loan waivers will increase the debt of the state's leading to higher fiscal deficit, limiting their investment in other areas. Moreover, this money that the states are using to repay the debt of the farmers is the taxpayers money
  - Overall economy
    - The loan waivers suck out public investments from the much needed sectors such as irrigation, R&D etc
    - It may also affect the credit rating of many of the institutions which will again affect the economy
  - False equivalency - most often heard argument is that if loans for the industries can be written off then why not for agriculture sector. No doubt there is distress in the agriculture sector and there is a need of urgent reforms but this comparison to industries is not appropriate

- **Do the waivers work?**
  - **CAG Report 2013**
    - 13.5% of the audited accounts though were eligible were, did not receive the benefit
    - 8.5% of the audited accounts were not eligible though they received the benefit
    - The banks were supposed to issue the certificates to the farmers whose loans had been waived off in order to ensure that they were eligible to apply for new loans. In 34.2% of the accounts, there was no proof that the lending institution had issued a certificate
    - Faulty design - the scheme targeted to 4.3 Cr whose accounts were to be identified within a month to waive off the loans. This put a lot of pressure on the banks which led to certain errors
  - **World Bank Report**
    - The debt waiver reduces the debt on the households but does not increase the investment and productivity
    - The program failed to re-integrate the households into formal credit relationships

- **Way forward**
  - If the government wants to go forward with this, then the transfers to these households under DBT is much better initiative rather than the waivers (even this has some concerns) as it has been found that agriculture households on an average have borrowed ₹ 47000 from the moneylenders
  - Swaminathan Committee recommendations
  - Well-structured and efficient agriculture export policy
  - Efficient implementation of reforms such as e-NAM, MSP, PMKSY, PMFBY etc
  - Empowering FPOs (Farmer Producer Organisations)
  - Regulating the informal lending sector (such as moneylenders). They could be recognised as the NBFCs with a simple registration and could be given a leeway of charging interest rate within a band of interest rate