

FARM LOAN WAIVER [UPSC Notes GS III]

Context: There is rising farm distress which has prompted many states to look for alternatives to provide relief to farmers, with many chief ministers announcing loan waivers and some implementing major schemes.

What is it?

When there is a poor monsoon or natural calamity, farmers may be unable to repay loans. The **rural distress** in such situations often prompts States or the Centre to offer relief — reduction or complete waiver of loans. Essentially, the Centre or States take over the liability of farmers and repay the banks. Waivers are usually selective — only certain loan types, categories of farmers or loan sources may qualify. For instance, in 2008, crop loans and investment loans were waived for marginal and small farmers (those with less than 2 hectares of land ownership); other farmers were only given a 25 per cent reduction.

Why is it important?

Agriculture in India has been facing many issues — fragmented land holding, depleting water table levels, deteriorating soil quality, rising input costs, low productivity. Add to this vagaries of the monsoon. Output prices may not be remunerative. Farmers are often forced to borrow to manage expenses. Also, many small farmers not eligible for bank credit borrow at exorbitant interest rates from private sources. When nature rides roughshod over debt-ridden farmers in the form of erratic monsoon and crop failures, they face grim options. Indebtedness is a key reason for the many farmer suicides in the country. Loan waivers provide some relief to farmers in such situations.

Points in Favor of Farm Loan Waiver

- Rising costs, drop in income and increasing incidence of indebtedness among small and marginal farmers manifested in a spate of suicides over the years. Until policies are not tweaked in favour of farmers to address their risks related to production, weather-disaster, price, credit and market, the loan waiver will become a periodical instrument for temporary relief.
- There are two key facets of the farmers' crisis – falling income and indebtedness. As per NABARD's All India Rural Financial Inclusion Survey, the major sources of income for farmers are cultivation, wages (as labourers) and other allied activities. Data show that the monthly income of agricultural households from cultivation remained almost constant during the last four to five years (Rs 3,081 in 2012-13 and Rs 3,140 in 2016-17).
- Firms have always received debt waivers, though they are tactfully termed as “loan restructuring” or “one-time settlements”. Just as for firms, farms also need a reduction of debt burden, followed by a fresh infusion of credit, when their economic cycle is on a downturn.

Points Against Farm Loan Waiver

- Loan waiver helps a minority and excludes landless. That is because it benefits only those farmers who have taken loans from institutional sources. Last NSSO survey of 2013 showed 52% of agriculture households were indebted but only 60% of those had taken loans from institutional sources. This means, only 31% agriculture households (60% of 52% indebted households) are likely to benefit from loan waiver.
- Loan waivers have “reputational consequences”; that is, they adversely affect the repayment discipline of farmers, leading to a rise in defaults in future.
- Earlier debt waiver schemes have not led to increases in investment or productivity in Agriculture.
- After the implementation of debt waiver schemes, a farmer's access to formal sector lenders declines, leading to a rise in his dependence on informal sector lenders; in other words, waivers lead to the shrinkage of a farmer's future access to formal sector credit. This is because, after every waiver, banks become conservative in issuing fresh loans to beneficiaries, as they are perceived to be less creditworthy.

- It also increases the NPAs (Non-Performing Assets) of banks.
- For the government, loan waivers not only increase the fiscal deficit and interest burden but also limit its ability to undertake productive capital expenditure in the agriculture sector which affects the long-term growth in the sector. So far, loans amounting to over Rs 1.5 lakh crore has been waived off.

Other Measures To Address Farm Distress

1. Reducing costs:

- Establishing the nation-wide soil health card scheme, neem-coated urea is an important aspect as it will reduce the usage of fertilizers and enhance nitrogen use efficiency.
- Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) is a very important scheme to ensure proper water management in agriculture practices.
- Direct cash transfer is a better option than debt relief to incentivise the farmer and enable them to meet pre-operative expenses - and is proactive rather than reactive in nature
- Returns on cultivation should be ensured through an appropriate minimum support price (MSP) on farm products and/or reducing input costs. There has been a demand to raise the MSP of all commodities to 1.5 times the cost – as recommended by the Swaminathan Committee.

2. Generating employment opportunities

- The Situation Assessment of India reported that more than 40 percent of farmers would like to quit agriculture if alternative opportunities were available.
- In addition to farming, the government should emphasize on livestock, fisheries and development of water bodies. E.g: The Rashtriya Gokul Mission. This will benefit a lot of small and marginal farmers, including landless agriculture labourers who possess these indigenous species.
- Investment in agriculture and allied sector will help in employment generation. Government in budget 2019 also said that it will invest in a big way in developing infrastructure in both agriculture and allied farm sector, and encourage private entrepreneurs in food processing.

3. Reducing risks in agriculture

- Provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests & diseases. Pradhan Mantri Fasal Bima Yojana is a good start but it should be implemented carefully and all the issue must be resolved soon.
- Encourage farmers to adopt innovative and modern agricultural practices.
- Ensure the flow of credit to the agriculture sector.

4. Developing agri-infrastructure

- Agri-infrastructure—including agricultural markets, cold storage, warehouses, and agro-processing— has not developed in corresponding speed with rising agricultural production.
- There are no proper warehousing facilities which force the farmers to sell the produce at the prevailing low prices. So providing enough storage facilities, irrigation facilities, electricity should be the focus.
- PM Kisan SAMPADA Yojana is a comprehensive package which will result in the creation of modern infrastructure with efficient supply chain management from farm gate to retail outlet. It will not only provide a big boost to the growth of food processing sector in the country but also help in providing better returns to farmers and is a big step towards doubling of farmers income, creating huge employment opportunities especially in the rural areas, reducing wastage of agricultural produce, increasing the processing level and enhancing the export of processed foods.

5. Improving the quality of rural life

- Rural India is still missing basic amenities (including sanitation, hygiene, drinking water, drainage, schooling, and health centres).
- PM Gram Sadak Yojana, Swachh Bharat Abhiyan etc should be more aggressively taken.

- UBI and Farm distress: Unlike farm loan waivers, universal basic income does not impair credit culture and, unlike farmer-specific transfers, does not seek to tie down people to farming. Compared to a farmer-centric scheme, universal basic income holds greater appeal as it does not discriminate based on occupation or land ownership, and does not depend on accuracy of targeting to work. But the challenge with universal basic income is the prohibitive costs associated with it. A better version of support to farmers is schemes like Rythu Bandhu Scheme of Telangana and KALIA (Krushak Assistance for Livelihood and Income Augmentation) scheme by the Odisha government as they provide income support to farmers.

6. Market Reforms

- Amendments in APMC Acts: APMC Act should be amended to allow for direct marketing and the establishment of agricultural markets by the private and cooperative sector to provide more efficient marketing and creating an environment conducive to private investment.
- Appointment of an agricultural commission consisting of all stakeholders to look comprehensively into all aspects of farming.
- Grouping farmers into Farmer Producer Organizations (FPOs) could facilitate improved market access and better bargaining capacity.
- Commodity options (rights to buy or sell) in agricultural products can protect the farmers from the vagaries of distress sale during the periods of bumper harvests. This will ensure farmers the post-harvest prices at the time of planting the crop itself.
- 22,000 rural markets should be linked to the e-NAM portal as quickly as possible.
- Model Contract farming Act 2018: The act lays special emphasis on protecting the interests of the farmers, considering them as weaker of the two parties entering into a contract, the ministry states. One of the key features of the Model Act, to be adopted and enacted by the states is that it brings contract farming outside the ambit of the APMC Act

7. Land Consolidation

- Another major issue relates to the shrinking size of farms which is also responsible for low incomes and farmers' distress. Thus, the viability of marginal and small farmers is a major challenge for Indian agriculture. We need to have policies for land consolidation along with land development activities in order to tackle the challenge of the low average size of holdings.'
- Digital India Land Record modernisation programme: The main aims of DILRMP are to usher in a system of updated land records, automated and automatic mutation, integration between textual and spatial records, inter-connectivity between revenue and registration, to replace the present deeds registration and presumptive title system with that of conclusive titling with title guarantee.
- Model Agricultural Land Leasing Act, 2016: It Legalises land leasing to promote agricultural efficiency, equity and power reduction. This will also help in much needed productivity improvement in agriculture as well as occupational mobility of the people and rapid rural change. This is very important step for land reforms through which needs of landlord as well as lease holder have been taken care.

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