General Studies – 3; Topic: Agriculture

Farm Loan Waivers

1) Introduction
   • Agriculture currently contributes just about 15% to the national output and about 50% of the population directly or indirectly depends on it for employment.
   • Farmer distress is a real and pressing problem, as evidenced by the protests currently taking place in various parts of the country.
   • In the recent past, widespread demands have been heard for farm loan waivers amid continuing agrarian distress.

2) 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.
   • Output prices may not be remunerative. Farmers are often forced to borrow to manage expenses.
   • Indebtedness is a key reason for the many farmer suicides in the country.
   • Loan waivers provide some relief to farmers in such situations
   • Farm loan waivers are at best a temporary solution

3) Negative implications
   • Loan waivers might help the government buy peace with farmers in the short run, but they are unlikely to change much on the ground.
   • Research shows that loan waivers do not result in greater investment or better labour market outcomes.
   • No improvement in farm productivity for households qualifying for loan waiver indicates a failure of the programme to achieve its desired goals.
   • Loan waivers can also affect the flow of credit. It creates distortions in the credit market, as repeated waivers incentivise default.
   • They can not only increase the deficit and interest burden, but also limit the ability of the government to undertake capital expenditure.
   • Lower capital expenditure affects longer-term growth prospects, including that of the agriculture sector.
   • Debt waiver in case of default, farmers are likely to reduce productive investments and spend more on consumption.
   • They entail a moral hazard — even those who can afford to pay may not, in the expectation of a waiver.
   • Providing loan waivers in some states promote farmers from other states also demanding farm loan waiver.
   • Due to farm loan waivers, overall borrowings of the government would go up and that can lead to crowding out private borrowers and increase the cost of borrowings for others.
   • Loan waiver has not helped the farmers. It is a relief only for one season with the farmers going back to grind in the next.

4) Recent problems in the agricultural sector
• For the last five years, horticulture production has exceeded the production of foodgrains. However, accompanying infrastructure for storage and marketing has not developed, resulting in higher price volatility.
• The real crisis for Indian farmer is that he or she is not in control of the produce, unlike other businesses, and is dependent on cartel of traders to fetch a decent price.
• Farm infrastructure through cold stores has helped the corporate sector more than the farmers.
• Only a small proportion of the indebted marginal and small farmers had taken loans from institutional sources. Such farmers would not benefit from any scheme that restructures debt taken from banks

5) Solutions that go beyond loan waivers.
• Studies done by World Bank have showed that loan waiver is not a solution to Indian agriculture sector.
• Incentivise people to move out of agriculture by expansion in the manufacturing sector.
• Apart from efforts to increase yields, land leasing should be strengthened, which will not only allow consolidation, but will also give an opportunity to unwilling farmers to exit the sector.
• Adequate safeguards need to be built in order to protect farmers against both production and price risks.
• Central and state governments will need to work together in order to enhance the viability of the sector.
• Investment in practically every aspect of the farm economy, including irrigation, agricultural research, storage and marketing.
• Require policy decisions in other areas like FDI in multi-brand retail, which would lay the groundwork for cold-chain storage infrastructure—that support the sector.
• Formulate eligibility rules for loan waiver that depend on historical loan-utilization, investment, and repayment patterns.
• Alternative policy intervention is the agricultural insurance.
• The money waived could be invested for creating infrastructure that makes farmers independent of cartel of traders and help them to reap maximum economic benefit of their produce.
• Considering loan waiver only up to a specified threshold limit (mostly Rs 1 lakh), and any amount over that will have to be paid so that there may not be a significant worsening of credit culture.