

Farm Loan Waiver – “Is it good or bad for the economy?”

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ABSTRACT

Loan waivers may provide immediate relief to the problem but fail to provide any help in solving the fundamental issues being faced by the farmers and removing the root cause of the problem. Waivers in some states create pressure in other states to implement the same. These generally benefit the rich farmers who have easy access to the banks, better financial literacy and awareness.

1. Farm loan waiver

December 2018 marked starting of farm loans throughout the country. Almost every other state is starting with farm loan schemes. Recently three new states got added to the list namely Chhattisgarh, Madhya Pradesh & Rajasthan and have waived off up to 8.6 billion \$ worth of farm loans.

M.P. has waived off 35,000 cr worth of farm loan, Rajasthan has waived off 18,000 cr followed by Chhattisgarh waiving of 6,100 cr worth of farm loans. But what we need to understand here is will this amount actually be of any help to our farmers. Agriculture sector presently ranks 3 in India's GDP (17.32%) and is preceded by Industry (29.02%) & Services sectors (53.66%). Even though the agriculture sector makes a small contribution in the GDP of the nation, around 49% of the total workforce of the nation is involved in the agriculture sector.

In a survey conducted on people working in this sector, it has been observed that the job satisfaction is too low. A few of the stress factors are: almost half of the agricultural land is not irrigated as majority of the farmers depend on monsoons, if the rainfall is less- their crops dry out and if the rainfall is excessive- flooding leads to spoiling of their crops. Apart from this, another factor that contributes to their stress is they are not able to repay their loans. 2015 annual report reveals over 8,000 farmers and over 4,500 agricultural laborers committed suicide. No official report on suicide of farmers is available from 2016 onwards as confirmed by the agriculture minister in Lok Sabha.

Farmers have expressed their concern from time to time regarding difficulties in payment of loans and requesting for waiving off loans.

1.1. What is loan waiver?

The central or state government take the responsibility of the loans taken by farmers and pay them back to the banks. The farm loan waivers are of two types- complete waiver or

partial waiver where only a certain part is paid back by government. The government instructs the bank of relieve the farmers off the loan and that the loan will now be paid by the government. The main sufferer here becomes the bank authorities who now have to wait endlessly for the government to pay back the loan amount to them in whatever time they wish to take in paying back the loan. Seeing the amount of thousands of crores of loan that needs to be paid off, no government has such huge amounts in excess to pay off immediately. The eventual burden of this comes to the common man.

The issues with farm loan waivers are- it leads to willful default of loans and damages the credit culture in the country. Let us take an example of two farmers who took a loan of Rs. 5 Lakhs each. The first farmer worked very hard and paid off all the loan but the second farmer did not pay off the loan and waited for 3-4 years until the time of election came and the state government announced that all farmers loans will get waived off. This leads to the honest loan payers becoming willful defaulters in future. The loan waivers schemes also leads to NPAs in the banks.

World Bank, UN expert says that debt waiver is not a good way of supporting the farmers. Experts said that a populist measure such as a “blanket debt forgiveness” would prove no good and that the government should instead find the root cause which leads to a debt pile up. This leads to a long term loss to the country. They also publishes a report titled “The economic effects of a borrower bailout: evidence from an emerging market” and the study was based on the Indian market. This report concluded that it is an ultimate loss to the farmer.

Despite of the Maharashtra government waiving off crop loans taken by the farmers, the suicide rate of the farmers still continued to increase. A similar trend was also seen in many other states. This means that the loan waivers have little or no impact on the suicide rates of the farmers and it is not the root cause of stress to the farmers.

1.2. Why loan waivers cannot stop suicide?

Loan waivers have a limited outreach because it is generally a partial loan waiver, it is applicable only a certain set of farmers and it only benefits those farmers who have availed institutional finance. Informal lending is not covered under such schemes which are mostly practiced by farmers in our country. Hence, the suicide rate does not decrease with this policy.

1.3. Why do farmers take informal loans?

This can be understood by having a look at the major loan waivers of the past- in 1990 and 2008. In 2014, Telangana and Andhra Pradesh announced waivers, Tamil Nadu joined in 2016. Studies have shown that the reduction in bank credit following such waivers forces the farmers to approach the informal sector lenders, which increases indebtedness as such loans are expensive. The reduction in bank credit is due to the fact that the government takes a very long time in payment of these farmer loans after the waive off scheme is announced. The banks decide to stop giving such loans in the future and the farmers are hence left with no other option but taking loans from the informal lenders at a very high interest rate. An RBI study of the loan waiver by Tamil Nadu said it can have a dampening effect on rural credit institutions.

Hence, we understand that the banks suffers due to such policies, the farmers suicide rate does not decrease and the

farmers are not able to take loans from financial institutions in future.

Impact on Government because of farm loan waivers:

1. *Increase in fiscal deficit:* Which means the government needs to borrow more money from RBI & inflation increases.
2. *Crowding out effect:* Less money supply in the economy.
3. Less money is spent on infrastructure
4. Rate of interest increases which affects the common man.
5. Decrease in private sector investment.

2. Conclusion

So the main solution to this issue is to focus on the root cause which is the infrastructural issues like proper irrigation and non-dependency on monsoons; implementation of proper pricing policy for farmers which will decrease the suicide rates and enable farmers to pay back their loans. A scheme announced to facilitate this was PM-AASHA which is a very good policy but did not witness much ground implementation as enough centers are not available for the farmers to avail this policy.

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