An Insight into Debt Waiver

What is the issue?

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After the UP government waived farm loans of about Rs 36,000 crore for UP farmers, pressure has mounted on other States to follow it.

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What is the ground reality?

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- Contrary to common belief, debt waivers aside from possibly guaranteeing electoral victory, do little to alleviate the plight of farmers.
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- They neither help kick-start the rural economy nor spur agriculture investment.
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- In fact, loan waivers only **compound the problems faced by farmers** by tarnishing their credit history and restricting access to institutional credit.
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- They create a moral hazard by disrupting the credit discipline among borrowers.
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- Debt waivers offer only short-term relief. Also they do not offer any respite to the most underprivileged farmers who are seldom entertained by banks.
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- The data shows about 30-35% of farmers in the country still depend only on non-institutional credit.
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What the experience says?

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- The first-ever nationwide farm loan waiver was announced by the VP Singh government in 1990 at a fiscal cost of Rs 10,000 crore.

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- Banks ended up paying a huge price for this as many borrowers started to default, in anticipation of more waivers.
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- A World Bank research paper shows that for a standard deviation of one in bailout exposure, there is a 4-6% decline in the number of loans.
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- This study was done in 2008 after the then Finance Minister P Chidambaram wrote off a massive Rs 50,000 crore of farm loans.
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- What happened after the bailout was that **banks reduced exposure** to districts where the write-offs were high.
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- RBI data shows that non-performing assets in agriculture for commercial banks rose after the 2008 debt waiver programme.
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- In 2014, before the elections, both N Chandrababu Naidu and K Chandrasekhar Rao promised loan waivers to farmers in Andhra Pradesh and Telangana.
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- The loan waive, only compounded the problems of farmers.
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- According to the NCRB, farmer suicides in Andhra Pradesh went up to 516 in 2015 from 160 reported in 2014, while in Telangana it rose by over 50 per cent, to 1,358 deaths in 2015.
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Where the solution lies?

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- The solution lies in offering ways to improve farmers' income — whether through **better price for produce, introducing methods to generate non-farm income, or saving on costs of farming.**
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- Debt waivers should be replaced by a comprehensive package for complementing the income of farmers.
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- The respective State agri departments need to work with their agriculture universities and draw up a plan for improving the non-farm income of farmers through **poultry farming, cattle breeding, or fisheries.**
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- They should help farmers make the choice of right crops and variety. Ways to

reduce costs and improve farm productivity have to be brought in.
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- Ensuring a good price for the produce is also important.
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- **E-NAM,** the Centre's flagship electronic national agri market scheme, is still stuck at various levels of implementation.
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- Many States are yet to modify their APMC Act to create a single market for facilitating trade through e-NAM portal.
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- **The crop insurance scheme** is also one way to ensure farmers do not suffer losses because of crop failure.
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Source: Business Line

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