

Assessing Farm Loan Waivers

What is the issue?

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- With mounting pressures from farmers, many state governments are announcing farm loan waivers.

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- It is essential, in this context, to assess the sustainability of this option as well as to look for alternative solutions.

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Why are loan waivers not advisable?

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- Farm loan waivers are a quick-fix solution to farmers' distress.

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- They may temporarily alleviate the problems of those farmers with access to formal banking.

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- It ignores the real needs of the many poor farmers who rely on moneylenders.

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- They also do not address the fundamental problems of Indian agriculture such as rising costs and falling profitability.

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- Also, waivers destroy the country's credit culture as certain borrowers tend to default in anticipation of the waiver.

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- Fresh lending to defaulting borrowers is stalled.

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- As, banking regulations prohibit disbursement of fresh loans to defaulters unless the loans are restructured.

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- Significantly, governments fund loan waivers through borrowings.

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- This, in turn, results in increased sovereign indebtedness, higher interest

expenses and deteriorating fiscal deficit.

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- Consolidated fiscal deficit is already under stress due to increase in crude oil prices and populist schemes ahead of general elections.

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- Besides these, farm loan waivers crowd out agriculture-related investments in areas such as irrigation and research.

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What are the sustainable mechanisms?

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- Institutional mechanisms like crop insurance and interest subvention are far more effective in tackling farm loan crisis.

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- State Bank of India has recommended an income support scheme for small and marginal farmers in the place of loan waivers.

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- It has estimated the annual cost to be Rs. 50,000 crore or 0.3% of GDP.

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- This is just a fraction of the Rs. 1.9 lakh crore farm loan waivers announced since April 2017.

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- Income support makes direct benefit transfer (DBT) to targeted recipients.

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- It could also increase banking penetration in rural India.

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- E.g. Telengana has launched the 'farmer investment scheme'

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- Under this, each farmer receives Rs. 8,000 per acre payable in two equal instalments ahead of the kharif and rabi season.

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- This is to meet their seed, fertiliser, pesticide and field-preparation expenses.

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What can the government do for finances?

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- **CPSE** - The government must stop the divestment of central public sector enterprises (CPSEs).

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- It may instead raise substantial funds by rationalising CPSE balance sheets.
- CPSEs may dispose the low yielding assets along with the vast surplus property holdings to reduce their debt.
- They can enhance their dividend and tax-paying ability and improve their return on assets and valuation.
- So by streamlining CPSEs' balance sheets, the government will be able to address the farm loan crisis without impairing the fiscal deficit.

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- **Bonds** - The government can issue callable deep discount bonds (CDDBs).
- Deep discount bonds are bonds whose interest accumulates during the tenor of the instrument.
- These are paid at maturity along with the principal repayment.
- The 'callable' nature of CDDBs allows the government to pay it off earlier than the maturity date.
- The government may issue CDDBs of multiple tenors, like 5-year, 10-year, and 15-year, targeted at retail and institutional investors.
- The issue of CDDBs will enable the government save on cash interest outgo during the tenor of the instrument.
- It can thereby moderate the consolidated fiscal deficit.
- Along with these, large-scale investments in agricultural storage, processing, marketing, transportation, financing and insurance are important.

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Source: BusinessLine

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