Farm loan waiver

Why in news?

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The BJP had promised to waive off loans of small and marginalised farmers in Uttar Pradesh in its 2017 poll manifesto,.

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What is the issue?

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- Reserve Bank of India Deputy Governor and State Bank of India Chairman expressed their reservations over waiving crop loans due from small and marginal farmers in Uttar Pradesh.
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- According to an SBI assessment, waiver will lead to writing off over Rs.27,400 crore, or a third of the outstanding credit to agriculture in the State of over Rs.86,000 crore.
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- What is worse is that the government in Maharashtra is under pressure to do the same.
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- Loan waivers create a moral hazard by effectively punishing those who repay their loans.
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- Loan waiver scheme of 2008 did not work entirely to the advantage of small and marginal farmers, with the CAG later expressing proving the point.
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- However, it must also be remembered that credit restructuring to industry has also entailed generous ‘haircuts’ on the outstanding amount often away from the public glare.
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- In dealing with the burden of NPAs, RBI Governor said rather than populist there is a necessity for being become pragmatic.
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- Hence, an attempt can be made to restructure bad farm loans (particularly in regions where farmers' suicides have taken place), as in the case of industry, before writing them off.
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- However, in the medium term, crop insurance should emerge as the main vehicle to cope with rural distress.
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- The sudden stress on waivers, which runs contrary to the Pradhan Mantri Fasal Bima Yojana, points to an unwillingness to confront the real issues in agriculture.
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What is the way forward?

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- Recent governments have increasingly focused on ramping up agricultural credit instead of improving the institutions in this regard.
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- These include strengthening rural credit cooperatives, making them more publicly managed rather than government-controlled, so that they emerge as alternatives to informal sources of credit.
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- The SHGs could act as source of credit, but should not be burdened with onerous credit targets, as in the past.
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- Jan Dhan accounts can arrest the trend towards informalisation of credit, provided the emerging banking systems and technologies work to the advantage of the farmers.
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- Finally, agriculture needs better technologies to improve yields and combat the vagaries of rainfall and temperature, and better prices for its produce.
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Source: The Indian Express, Business Line

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