Farm Loan Waiver

What is the issue?

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The UP government’s waiver of farmer loans, dramatic protests by Tamil Nadu farmers in Delhi and a warning from the RBI Governor against loan waivers — have once again brought farm loan writeoffs under public glare.

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What is farm loan?

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- **Farm loans may be crop loans or investment loans taken to buy equipment.**
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- When there is a poor monsoon or natural calamity, farmers may be unable to repay loans.
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- The rural distress in such situations often prompts States or the Centre to offer relief — reduction or complete waiver of loans.
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- Essentially, the Centre or States take over the liability of farmers and repay the banks.
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- Waivers are usually selective — only certain loan types, categories of farmers or loan sources may qualify.
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- For instance, in 2008, crop loans and investment loans were waived for marginal and small farmers (those with less than 2 hectares of land ownership); other farmers were only given a 25 per cent reduction.
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- The Madras High Court has directed Tamil Nadu to offer a waiver to all farmers in the State.
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Why is it important?

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- Agriculture in India has been facing many issues — fragmented land holding, depleting water table levels, deteriorating soil quality, rising input costs, low productivity.
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- Add to this vagaries of the monsoon. Output prices may not be remunerative.
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- Farmers are often forced to borrow to manage expenses.
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- **Also, many small farmers not eligible for bank credit borrow at exorbitant interest rates from private sources.**
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- When nature rides roughshod over debt-ridden farmers in the form of erratic monsoon and crop failures, they face grim options.
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- Indebtedness is a key reason for the many farmer suicides in the country.
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- Loan waivers provide some relief to farmers in such situations, but there are debates about the long-term effectiveness of the measure.
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What the critics say?

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- Critics demand making agriculture sustainable by reducing inefficiencies, increasing income, reducing costs and providing protection through insurance schemes.
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- They point out that farm loan waivers are at best a temporary solution and entail a moral hazard — even those who can afford to pay may not, in the expectation of a waiver.
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- **Such measures can erode credit discipline and may make banks wary of lending to farmers in the future.**
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- It also makes a sharp dent in the finances of the government that finances the write-off. But farmers can decide the fortunes of political parties, and

politicians are wary of antagonising them.
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Why should we care?

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- Anything relating to food - and hence its producers — concerns all of us.
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- Farmers are not a happy lot — about 40 per cent of them dislike farming and would quit if they can, as per the NSSO's 59th survey.
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- Not finding short-term and long-term solutions can severely impact food security.
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- On the other hand, loan waivers cost tax payers. For instance, about Rs.525 billion was spent on the loan waiver of 2008, as per the International Council for Research on International Economic Relations.
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- The larger worry is that these costs may not be one-off, as politicians may wave this carrot to win elections.
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- If you are an investor in bank stocks, you may have to worry, as waivers may add to the already elevated non-performing assets of banks.
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- The waiver can offer temporary relief, but long-term solutions are needed to solve farmer woes.
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Source: Business Line

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