

Farm Loan Waiver

Why in News?

Maharashtra government announced a loan waiver for farmers who had up to Rs 2 lakh in pending loans between April 1, 2015 and March 31, 2019.

Why this waiver is in spotlight?

- Maharashtra by doing so has become the only state to have offered two consecutive farm loan waivers within two-and-a-half years of each other.
- The previous loan waiver was announced by the Devendra Fadnavis government in June 2017.
- A look at why this loan waiver was considered necessary and how it is different from the earlier one is important.

Why banks give loans?

- At the start of the cropping cycle, **banks extend short term credits** to farmers to finance their need of capital for purchase of seeds, etc. Financial institutions usually provide this loan at 7% interest.
- Timely repayments allows farmers to get a 3% **interest subvention** from the central government and a further 2% subvention from the state government, thus effectively reducing the interest rate to just 1%.
- This is envisioned to help the farmers access credit at the right time and keep them **away from the clutches of money lenders** who lend at exorbitant rates.

Why defaults occur?

- A spate of extreme weather events, like droughts, floods, hailstorms etc, often results in farmers defaulting on their repayment.
- As of September 30, 2019 the outstanding crop loan in Maharashtra was more than Rs 1 lakh crore.
- Defaulting farmers become ineligible for new capital from the banks and are forced to knock at the door of private money lenders.
- To help the farm sector, state governments have time and again announced loan waiver schemes.
- Back in 2008-09, the then government at the Centre had announced a loan waiver scheme for the entire country.

- States like Madhya Pradesh, Chhattisgarh and others have announced similar schemes in the recent past.

What is the 2017 waiver?

- Faced with an unprecedented farmers' strike, the Fadnavis-led government had announced a loan waiver scheme in June 2017.
- Irrespective of the size of landholding, the scheme waived off outstanding crop loans up to Rs 1.5 lakh per family.
- Farmers who made regular repayments got Rs 25,000 as incentive for good credit behaviour.
- The scheme waived off loans pending from April 1, 2012 to March 30, 2016 and later, it was extended to include outstanding loans from 2001.
- Farmers whose outstanding was more than Rs 1.5 lakh were expected to deposit the additional amount to get the waiver.
- Calling for a complete loan waiver, the Opposition described the Fadnavis government's scheme as a cruel joke on farmers.

What is the new scheme?

- The new Maharashtra coalition government announced the Mahatma Jyotirao Phule Shetkari Karja Mukti Yojana.
- State government sources said this scheme would see Rs 26,000 crore of outstanding loans of over 36 lakh accounts being waived off.
- This scheme will see outstanding crop loan up to Rs 2 lakh, pending from April 1, 2015 to March 31, 2019, being waived off.

What is the difference between the two waivers?

- In the latest scheme, farmers with more than Rs 2 lakh outstanding are not eligible for the scheme.
- Also, the scheme has no incentive for farmers who are regular in their repayments.
- Farmers' activists have criticised these two provisions which they say defeats the purpose of loan waiver.
- There are talks for extending the scheme later to cover farmers with more than Rs 2 lakh outstanding as well as for farmers who are regular with repayments.
- A new provision in the present scheme is that families with more than one loan account are eligible for waiver in each one of their accounts.
- The last waiver was limited to one account per family.
- Also, this time farmers will not have to file online forms to avail their waivers. It had led to major confusion last time.

Source: Indian Express

