The Farce Called Farm loan waivers

What is the issue?

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- Farm loan waivers have been a popular political instrument with governments to address agrarian stress temporarily.
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- While this is bad economics, a significant part of such loan waivers also don’t actually benefit the needy farmers, which is a cause for caution.
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What are recent trends in this context?

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- Many states, including “Punjab, Uttar Pradesh, Maharashtra and Karnataka have implemented packages for loan write-offs.
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- As farm loan waivers are a preferred “political” answer to farm distress, more populist announcements are likely in the run-up to 2019 elections.
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- While farm loan waiver is not a solution to agrarian distress, it is an effective immediate painkiller before the long process of “repair” can commence.
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- But with most governments see it merely as an electoral tool with little vision further to address the larger crisis in hand.
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What are the concerns with this trend?

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- A majority of farmers do not take loans from banks and it is often the

comparatively better-off farmers who are able to access bank credit.
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- All bank loans are supposed to be insured under various insurance schemes, implying crop failures shouldn't necessarily concern the borrowers.
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- Therefore, theoretically, loss due to natural calamities should be taken care of by insurance, but this isn't the case, which is absurd.
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- Notably, the 12 largest corporate defaulters listed by RBI, owe the banks a total sum of over Rs 2.5 lakh crore, which is only a small portion of the NPAs.
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- In comparison, the total farm loan write off (due to crop failures) in the country in 2009 was a significant Rs 52,000 crore.
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What do the numbers in Punjab's loan waiver scheme say?

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- The new government in Punjab announced a farm loan waiver immediately on assuming office.
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- When they got around to analysing the portfolio of loans, they stumbled upon some inconvenient details.
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- Punjab has about 1 crore acres of cultivated land and the short-term credit required per season at the recommended rate of Rs. 22,000 per acre.
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- On this base, it is estimated that Rs. 22,000 crore is needed, whereas the crop loans outstanding of all banks were around `63,000 crore.
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- While there are around 20 lakh farmers in the state, all banks together have issued 40 lakh Kisan Credit Cards.
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- Farmers would need money for other purposes like education of children etc, but that doesn't justify disproportionate agricultural loans.
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What is the way ahead?

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- Successive Union finance ministers have been announcing increased targets for short-term agricultural credit in their budget speeches.
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- Hence, many banks, under pressure to perform, find the easy way out by giving larger than required amounts based on land as collateral.
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- While a detailed bank-wise data is not available, anecdotal evidence suggests that some banks are “better” at this ‘fixing’ than others.
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- Considering these issues, it is high time that the RBI and central government scrutinise the profile of agro-loans being doled out to weed out proxies.
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Source: Financial Express

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