



## ARCs for Agriculture Loans

This editorial is based on [“Farming Out”](#) which was published in Indian Express on 07/12/2021. It talks about the issue of bad loans in the agriculture sector and if creating an Asset Reconstruction Company (ARC) for the sector is a prudent way forward.

While farmers in India are struggling to get bank loans, as formal sector lenders have become even more risk averse amid the [Covid-19 pandemic](#), the banks are challenged by huge [Non-Performing Assets \(NPAs\)](#) as they're unable to recover farm loans.

In this context, the [Indian Banks' Association](#) in a recently held meeting proposed the idea of floating an [Asset Reconstruction Company \(ARC\)](#) to improve the recovery from [bad loans in the agricultural sector](#).

However, several issues exist with reference to setting up a single mechanism to tackle NPAs in the farm sector.

### Agriculture and Bad Loans

- **Gross NPAs for Agriculture Sector:** As per the [RBI's Financial Stability Report](#), bad loans (gross NPAs) for the agricultural sector stood at 9.8% at the end of March 2021.
  - In comparison, they were at 11.3% and 7.5% for the industry and services sectors respectively.
- **Issues Raised by Farm Loan Waivers:** The announcement of farm loan waivers by states around elections **leads to “deteriorating credit culture”**.
  - Since 2014, at least 11 states have announced farm loan waivers including Rajasthan, MP, Punjab, Chhattisgarh, Andhra Pradesh, Telangana, Maharashtra, Punjab and UP.
  - It creates a **concern among banks regarding the rise of NPAs** in the farm sector and **leads to recovery challenges** for the banks.
    - They often **leave the banks reluctant to lend**.
  - Loan waivers **stress the budgets** of the waiving state or central government.
  - Also, these waivers are **poorly targeted**, and eventually reduce the flow of credit
- **Current Mechanism to tackle NPAs of Agri-Sector:** At present, there is **neither a unified mechanism to tackle NPAs** in the farm sector **nor a single law** that deals with enforcement of mortgages created on agricultural land.
  - However, the **recovery laws vary from state** to state wherever agricultural land is offered as collateral.
  - Enforcement of provisions on mortgaged farm land is generally done through the Revenue Recovery Act of states, [Recovery of Debt and Bankruptcy Act, 1993](#), among other state-specific regulations.

### Creating ARCs for Farm Sector

- **Recent Proposal:** To improve recovery of bad loans in the agriculture sector, leading banks have made a pitch for setting up an **ARC specifically to deal with collections and recovery of**

### farm loans.

- With a government-backed ARC having been recently set up to deal with bank NPAs to the industry, **this idea has acceptability among banks.**
- **Arguments in Favour of ARCs for Farm Loans:** As agricultural markets are dispersed, a single institution, as opposed to multiple banks, would be **more suited to deal with collections and recoveries** from farm loans, optimising the costs of the recovery.
  - Considering the **absence of a unified framework** to deal with the enforcement of mortgages created on agricultural land, there is a case for creating an effective mechanism for the recovery of dues.
- **Arguments Against Creating ARCs for Farm Loans:**
  - First and foremost, the requirement of the ARC is to have sufficient **availability of funds to match the huge amount of the NPA** market.
    - Even if sufficient funds are available with ARC, the **price expectation mismatch between selling bank (s) and buying ARC** and agreement on an acceptable valuation of the bad assets will also create a challenge for ARC.
  - As **local banks have far greater presence** on the ground than a single ARC, they are likely to be more capable of navigating the local terrain to recover their dues.
    - **Local bank officials may be more successful** in dealing with hundreds and thousands of these small borrowers than a single ARC.
  - As **rural land markets are characterised by lack of clear titles and multiple stakeholders**, ARCs specifically the farm sector is not an as prudent approach.
    - Moreover, even though land is a mortgageable asset, it is an emotive, political issue.
  - There is also a possibility that since agriculture is a state subject, such an approach could risk being seen as **encroaching on the rights of states.**

## Way Forward

- **Observing the Success Rates of Other ARCs:** The government has already set up such a framework (of ARCs) for the resolution of corporate sector loans that have turned bad.
  - Considering that doubts have been expressed over the effectiveness of the architecture of ARCs, **a more prudent approach would be to assess its experience** and then chalk the way forward.
  - Moreover, if there is indeed a need to provide for a similar framework for agricultural loans, then the same architecture could be employed.
- **Alternatives to Help Farmers:** There are also other ways to help farmers such as **ensuring timely access to credit on more favourable terms.**
  - A broader policy framework should be available to facilitate farming to become a more remunerative occupation.
- **Easing the NPA Sale Procedure:** It is utmost necessary for a rigorous and a **realistic approach to pricing between the banks and ARCs.**
  - Therefore, it is an urgent need for all stakeholders, including the regulator, to come together to make the entire process of NPA sale, resolution, recovery and revival fast and smooth.

### ***Drishti Mains Question***

Discuss the problem of bad loans that exists in the agricultural sector and what steps can be taken to mitigate the problem.