Quick Fix for the Farmer

(This editorial is based on the article "Quick Fix for the Farmer" which appears in The Indian Express on 10th December 2018.)

Thousands of farmers from different parts of India marched to Delhi in November this year to register their protest against the Central government's perceived apathy and neglect of farmers' demands.

They were basically demanding three things:

- The debate in Parliament to discuss farm distress;
- One-time loan waiver;
- Raising minimum support prices (MSPs) to 50 percent above the comprehensive cost of production, and making MSPs legally binding on private traders - that is, if any trader buys below MSP, he should be put in prison for three years.

Already, from April 2017 to July 2018, several states (Tamil Nadu, Uttar Pradesh, Maharashtra, Punjab, Rajasthan, Karnataka, and Andhra Pradesh) have announced loan waivers that together amount to Rs 1,82,802 crore. The remaining states are also likely to be added to this list during the run-up to parliamentary elections in April/May 2019. Although it is well known that loan waivers will not permanently solve the problems of farmers, yet this demand is likely to be met for political if not economic considerations. **Farm loan waivers have now become a standard demand across the country.**

However, it is interesting to note that of the states that have already announced loan waivers, only a few budgeted them while many others have done just lip service so far. For example, Punjab announced a loan waiver of Rs 10,000 crore, but so far has budgeted less than Rs 600 crore. Further, it may be noted that it is the better ones in the peasantry which will benefit the most from this move (as they have better access to the judicial and bureaucratic systems of the country).

Why Farm Loan Waiver is Always in Demand?

- **Farm loan waivers have become a permanent poll promise by all political parties.**
- Farm income growth has been subdued in recent years due to poor monsoon, failing prices etc. and, the loan waiver appears as a quick solution for the farm distress.
- **Also, farm loan waivers are easy to get.** If elections are around it goes without asking. If not, all it takes is an agitation to bring the government to its knees.
- **Governments have figured out that loan waivers are easy to give as well.** To reduce farm distress, there are better long-term alternatives to loan waivers. But building irrigation systems or warehouses, electrifying villages or creating markets takes time and effort. A loan waiver is quick

and returns are instant. //

Farm Loan Waiver is No Answer to India’s Farmers

- **Farm loan waivers lead to faulty targeting of beneficiaries and result in discrimination.** It also incentivizes wilful defaulters and erodes credit discipline.
- **Loan waivers not only impact bank balance sheets but also increase government spending** which is then financed by additional market borrowings, pushing up the interest rates.
- The ultimate goal of farm loan waiver is to lessen the debt burden of distressed and vulnerable farmers and help them qualify for fresh loans. The success of the loan waiver lies on the extent to which the benefits reach the needy farmers. **Loan waivers suffer from several drawbacks in this respect. It covers only a tiny fraction of farmers. According to 2012-13 NSS-SAS, 48% of the agricultural households did not have any outstanding loan.**
- Further, out of the indebted agricultural households, about 39% borrowed only from non-institutional sources. The farmers investing from their own savings and those borrowing from non-institutional sources are equally vulnerable to weather and market risks. But all such households are outside the purview of loan waivers.
- **It provides only a partial relief** to the indebted farmers as about half of the institutional borrowing of a cultivator is for non-farm purposes.
- One household has multiple loans either from different sources or in the name of different family members, which entitles it to multiple loan waiving.
- **Loan waiving excludes agricultural (wage)** labourers **who are even economically, politically and socially weaker** than cultivators in bearing the consequences of economic distress.
- It severely erodes the credit culture, with dire long-run consequences to the banking business.
- The scheme is prone to serious exclusion and inclusion errors, as evidenced by the Comptroller and Auditor General’s (CAG) findings in the Agricultural Debt Waiver and Debt Relief Scheme.
- Loan waivers have serious implications for other developmental expenditure, having a much larger multiplier effect on the economy. For instance, loan waiver may cost Uttar Pradesh at least ₹36,000 crore, which is 4.4 times the State’s capital expenditure of ₹8,191 crore (Budget estimate) in agriculture, including irrigation and flood management, in 2016-17. A similar amount spent on improvement of agriculture infrastructure and other developmental activities would create a base for future growth and development of the sector.
- **Ultimately loan waivers involve a transfer of resources from taxpayers to borrowers which can crimp consumption redistribution.**

Measures taken to improve farmers’ access to institutional credit and reduce their dependence on informal credit:

- As informal sources of credit are mostly usurious, the government has improved the flow of adequate credit through the nationalization of commercial banks, and the establishment of Regional Rural Banks and the National Bank for Agriculture and Rural Development.
- It has also launched various farm credit programmes over the years such as the Kisan Credit Card scheme in 1998, the Agricultural Debt Waiver and Debt Relief Scheme in 2008, the Interest Subvention Scheme in 2010-11, and the Pradhan Mantri Jan-Dhan Yojana in 2014.
- There is the increase in institutional credit from ₹8 lakh crore in 2014-15 to ₹10 lakh crore in 2017-18. Of this, ₹3.15 lakh crore is meant for capital investment, while the remaining is for crop loans, according to the Ministry of Agriculture and Farmers Welfare. Actual credit flow has considerably exceeded the target.
- The result is that the share of institutional credit to the agricultural gross domestic product has increased from 10% in 1999-2000 to nearly 41% in 2015-16.

Way Forward

- It appears that loan waiving can provide a short-term relief to a limited section of farmers; **it has a meager chance of bringing farmers out of the vicious cycle of indebtedness.**

- There is no concrete evidence on reduction in agrarian distress following the first spell of all-India farm loan waiver in 2008. In the longer run, strengthening the repayment capacity of the farmers by improving and stabilizing their income is the only way to keep them out of distress.
- **Lasting solutions like building irrigation capabilities and cold storage chains, increased crop insurance coverage, farm infrastructure building, tech-enabled productivity improvement and opening the sector to market forces and open trade can help the farmers in long run as a better option.**
- Agrarian distress and farmers' income will be addressed much better if States undertake and sincerely implement long-pending reforms in the agriculture sector with urgency.
- **Alternatively, waiving only a portion of the loan instead of placing a cap on the quantum of loan waiver will be an improvement towards averting moral hazards.**