



Loan waivers policy of Government and impact on Agriculture

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Abstract: The frequently announced farm loan waivers with the ostensible reason of reducing the farm debt burden have drawn criticisms both on grounds of equity as well as their likely harmful effects on the functioning of the rural credit system. The present paper is an attempt to evaluate the biggest ever loan waiver scheme so far implemented in the country, namely, the Agricultural and Rural Debt Relief Scheme. The housed level distributional and impact analysis carried out in the Alwar district of Rajasthan reveals that the scheme besides benefiting mainly the relatively better-off households, also had a negative impact on the repayment behavior of the borrowers.

Keywords: Agriculture, Debt Relief, Loan, Government scheme.

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Introduction: We all know about the loan waiver scheme of the Union Budget 2008, we know that there have been many farmer suicides in the recent past, and we also know that Indian agriculture is facing a crisis. Still, there is a lot of criticism about the loan waiver scheme which was designed to provide relief to the ailing rural economy and bring some respite to the distressed farmers. This research paper tries to analyze the loan waiver scheme to figure out the problems in the scheme, and if the scheme is capable of doing what it intends to do. The huge amount of money that would be spent for this scheme has caught everyone's attention, and that is not the major concern of this paper. As we know, agriculture is of vital importance in Indian socio-economic framework, and with a large population dependent on agriculture, such a huge amount should not be a problem if it is able to provide some relief to the farmers. This paper attempts to explore the potential of the huge amount of government resources spent on this scheme, and if the present use of money is its best possible use. But we must not forget that Indian agriculture is actually facing a crisis and some measures have to be taken to provide relief. This paper tries to find out the actual problems in Indian agriculture, if the present scheme solves some of these problems, and what steps should have been taken to address these issues.

Research objective:

- What are the drawbacks of the loan waiver scheme?
- Is this scheme the best possible way to address the issues of agrarian crisis?
- Would the loan waiver scheme help to reduce farmer suicides?
- What is the present situation of agriculture in India?

Research methodology: The first section includes the analysis of the loan waiver scheme. It deals with the pros and cons of the scheme, which includes the identification of various problems in the scheme. It considers the limitations of the scheme and the over emphasis of the benefits that have been assumed by the Finance Minister. The methodology adopted for this purpose was to trace the views of different people on the loan waiver scheme, and talking to some economists, agriculture scientists and journalists who had written about the scheme.

Problems with the loan waiver scheme: While reading out the 'Debt Waiver and Debt Relief' scheme in his Union Budget 2008 speech, the Finance Minister showed special concern for the indebted farmers, and especially the small and marginal farmers. The opening statement of this



scheme makes it clear that the Finance Minister has been working under the assumption that the main problem with Indian agriculture is of indebtedness, and small and marginal farmers are the people hit most badly by this crisis.

Identifying the Target Group: This is the most general perception about the scene of Indian agriculture. Unquestionably, every scheme has to limit its reach, and even if the scheme aims to help the small and marginal farmers, the definition on the basis of the size of land holdings does not make much sense. According to MS Swaminathan¹, in rain-fed, arid, and semi-arid areas, income from agriculture is very uncertain even for farmers having 4 or 5 hectares of cultivatable land and is closely dependent on the behavior of monsoon. As Arindam Banik points out, “A small farmer with less land but assured irrigation may be financially better off than another farmer with much larger land holding but no assured irrigation.

Disappointing for the Farmers: The role of the informal sector and moneylenders has been completely ignored in this scheme, and this will be dealt with more details in the next section. It is even more discouraging for those ‘honest’ farmers who have taken desperate measures to pay back their installments. CR Sukumar cites the example of a farmer couple who had no money to repay the bank loans due to monsoon failure, but rather than default, they borrowed from local a moneylender at a high cost and paid their loan installments on time.

Since many farmers borrow from the moneylenders in order to repay their bank loans, it would be very unfair for these farmers to be excluded from the relief scheme. It would be like penalizing the farmers who have been making prompt repayments of their debts honestly. In Sharad Joshi’s words, “whether a farmer owes money to the moneylender or to the bank is entirely a matter of accident.”

Discouraging for the Banking Sector: I have decided not to repay my loan instalment this time. Who knows there could be a similar waiver again in view of elections in the state next year?”⁹ These are the words of a farmer quoted by CR Sukumar in his article in Mint. Later in the same article, he quotes the deputy manager of Deccan Grameena Bank, Manjulapur. The deputy manager says, “We will be losing that healthy status (of around 98% recoveries) now with not more than 5% recoveries during this season, with farmers preferring not to repay in anticipation of a debt waiver scheme in the near future, in the backdrop of ensuing assembly elections in the state.”

The loan waiver scheme has certainly created a moral hazard situation in the banking sector, with increasing rate of non-repayment. PT Kuppaswamy, the chairman and CEO of Karur Vysya Bank told Mint¹⁰ that many farmers were shifting accounts from their banks to nationalized banks. The cause of this trend was the farmers’ anticipation of a loan waiver in the present election year, and also their fear that they might not get a write off in a private sector bank.

Politically Unsound: This scheme has created a discontent among the non-beneficiary group of farmers and amongst most of the urban people, even if they are not aware about the details of this scheme. Only a part of the 27% of the farmers indebted to formal sources will benefit, and around 80% of the farmers will not be happy with the government’s effort for the agriculture sector. Also, the statement made by Prime Minister that the scheme was a correction of the previous government’s failure does not make much sense in the fifth year of the term of his government. So, the scheme clearly has many loopholes even on the political front and from the votebank point of view. Sharad Joshi makes a very important point by saying, “It is rather remarkable that the UPA government, which does not accept the theory of ‘creamy layer’ for the backward classes, is trying to use the same doctrine for farmers who are, as it is, in such desperation that they prefer death to the ignominy of living.



Overemphasis of the benefits

Role of informal sector lending: First of all, it is important to note the importance of moneylenders in the rural economy, which have been completely ignored in this scheme. In India a large number of people get lone from the moneylenders on the interest rate. Informal sources of credit outweigh the formal sources in case of farmers with up to 0.40 hectares of land. Apart from the moneylenders, there are a lot of other informal sources that farmers approach for their credit needs.

Non-productive use of credit: It seems that a major reason for the increasing number of defaulter farmers is the use of credit for non-productive non-agricultural purposes. Farmers can never repay a loan if a major portion of loan credit is used for unproductive purpose. Farmers with up to 1 hectare of land, the non-agricultural spending of the loan amount are more than the agricultural spending. And for all farmers in general, around 40% of loan amount is used for non productive purpose. In short, large amount of money is spent on non income generating activities, and with this sort of spending pattern one can't repay the borrowed amount. So, the loan waiver scheme might be good for 'farmers' as individuals, but not for 'agriculture'.

Over emphasis of credit: Credit has been given too much emphasis in agriculture, and it should be realized that credit alone cannot solve the problems of agriculture, and it is very important to ensure timely inputs and technology, along with improved market opportunities. The following table16 shows data on the 'Trend growth rate in area, input use, credit and capital stock in agriculture during 1980-81 to 2015-16. Credit is the only factor that has been growing in Indian agriculture over the years, with all other factors of production showing a declining trend. This is a major contributor for the increasing number of default rates, as the farmers do not get the expected yield due to poor quality of inputs.

Other concerns: The benefits of the loan waiver scheme would be very short-term, and the same problem of indebtedness might arise in the next season also. This is because the need for credit would never end, and due of the lack of a long-term solution in this approach, the productivity and the yield will not increase and many farmers would continue to be defaulters.

Farmer suicides: There is no denying of the fact that farmer suicide is an issue that has to be dealt with. 'Suicide Mortality Rate for Male Farmers and Male Non-Farmers in India: 1995-2015'. It shows that the 'Suicide Mortality Rate' for male farmers is much more than that for male non-farmers and unfortunately, the trend of farmer suicides is increasing.

It wouldn't be wrong to say that the issue of 'Rural crisis' was brought up into limelight after the increasing cases of farmer suicides. Thus, all short term policy measures designed by the government should ideally address the problems faced by these farmers in order to provide instant relief. There can be no other possible justification for adopting a short term policy instrument.

Problems in agriculture

Deceleration in growth rate: In 2015-16, the share of agriculture in GDP was 20.2% with 56.5% work force dependent on agriculture for employment. The following table21 shows the declining trend in the growth rate of agriculture, while industry and service sector have been growing rapidly.

As mentioned earlier in this paper, credit in agriculture has been given too much importance while other factors responsible for productivity have been ignored. The finance minister also assumes indebtedness to be the major cause of distress amongst farmer households, but according to the 'Report of Expert Group on Indebtedness' chaired by R Radhakrishna, indebtedness is just a symptom and not the root cause of this crisis, and the committee report says that average farmer household borrowing has not been excessive. According to the committee report the factors contributing to this crisis are "stagnation in agriculture, increasing production and marketing risks, institutional vacuum and lack of alternative livelihood opportunities

Decreasing Yield: A major problem ailing Indian agriculture is the declining efficiency of input use and thus, adversely affecting the yield. 'Growth of Area, Production and Yield of Major Crops in India: 1980-81 to 2015-16' displays this negative trend.



This declining trend of annual growth rate of yield might affect the profitability in agriculture. According to MS Swaminathan, “The prevailing gap between potential and actual yields in the crops of rain-fed areas such as jowar, bajra, millets, pulses, and oilseeds is over 200 per cent even with the technologies on the shelf”, and the benefits of the loan waiver scheme would be fully realized only if the farmers are “supported with synergetic packages of technology, services, marketing infrastructure, and public policies related to input and output pricing.”

Productivity in Agriculture: Near stagnation in ‘per worker productivity in agriculture’, with some states exhibiting a declining trend. This trend of falling productivity can lead to negative consequences for agriculture and should be checked. What makes this issue even more important is the fact that the per-worker productivity in non-agriculture sectors has been growing much faster than that in agriculture.

Availability of timely input and information: The main problem with over-emphasising the provision of credit and not considering other factors, like provision of timely inputs, is the fact that even if farmers have credit, it would be of no use to them if they are not able to purchase seeds, fertilizers, pesticides etc. from the money they have. This hampers productivity with the actual yield being less than the expected yield. The following table²⁶ has the data for the kharif season showing the number of farmer households using fertilizers, the number of farmer households using it on time, and the number of farmer households not being able to use the resource on time.

Other problems: Sharad Joshi feels that it is very important to open up the economy for agriculture so that the farmers in India become globally competitive. He says that while “some of the farmers have to undergo the rather excruciating process of shifting to new jobs. But we have to open up if our farmers have to learn new skills and new technology.” He said that he would prefer to pay for electricity and get it when he needs it, rather than getting subsidized electricity at midnight. Alan Greenspan also says that “government in recent years has expended more than 4 per cent of GDP on subsidies, mainly on food and fertilizer, while state subsidization of power and irrigation has added measurably more.

Conclusion and recommendations: Undoubtedly, the most important concern in Indian agriculture is the lack of adequate investment. Large scale investment in agriculture has to be taken up by the state as the private sector does not have the capacity to undertake such huge investment, and also there is no incentive for an individual to take up such investment that falls under the category of public good. If the infrastructure in agriculture is in its place, we can hope to see more private corporate companies coming up in agriculture, which would be beneficial for the farmers. This would incorporate the farmers in the mainstream and it might put an end to the incessant subsidies in agriculture. Talking of rural credit, as mentioned earlier also, just the provision of credit will not end all the problems in agriculture. M Sitarama Murty puts forward this view by saying that it would be a “fallacy to believe that credit or its waiver alone can mitigate the problems of the afflicted farmers. Timely availability of the right kind of fertilizers, genuine and quality seeds is very important. The marketing component of the chain is weak and the Government can improve the storage, transport and processing facilities of grains, fruits and vegetables and prevent distress sale of produce.

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