



Image source – The Indian Express

# Farmer Loan Waiver – A Boon or a Bane

*“Wisdom is not a product of schooling but of the lifelong attempt to acquire it.”  
— Albert Einstein*

## Debt waiver: A Boon or a Curse

How would you feel when someone waives your loan amount completely? You will be on cloud nine, for sure. Right?? Similar is the case with the farmer. When a farmer with very low income, which is not even predictable, has to invest huge amounts of money and time on cropping but has to wait for indefinite time to cash the harvested produce, will definitely be on cloud nine on waiver of his loans.

We cannot judge if the debt waiver is beneficial or not, as there are lot of stakeholders involved in the entire process and if a farmer, who has to feed the entire nation, gets loan waiver of his bank debts, he would certainly focus on next cropping season rather than dealing with the current loss. However, in this case, Government has to finance for the waived amount to the respective banks, which only means a lot of burden on the economic system.

Debt waiver, as such is a very complex system. Let us discuss each stakeholder individually.

To start with, let us first talk about the farmer who is the most important stakeholder in the entire process.

### Farmer

He is the beneficiary of the loan waiver. As a production credit in Agriculture, banks lend money to the farmer for raising crops. This particular loan lending by banks to the farmer is mandatory as per RBI norms under the Priority Sector Lending (PSL) targets. So banks lend to the farmer at very low interest rates along with some subsidy attached in every scheme with reasonably a long repayment period, but due to various reasons, the farmer even after harvesting the crop, is unable to repay loans due to which Non Performing Assets (NPAs) of banks increase.

Let us check the most possible reasons due to which the farmer is unable to pay his/her debt

1. Crop failure due to Biotic (Insects and disease epidemic) and Abiotic (drought, flood, heavy rains and hailstorm) reasons
2. Low Production and Productivity
3. Lack of proper marketing, poor price to the produce
4. Distressed sale
5. Costly inputs and lack of proper Post harvest processing

In addition to the above, in India, maximum number of farmers are marginal, and are totally dependent on agriculture on the same meagre piece of land which sometimes become difficult for the farmer to handle his/her family needs, leave alone the country needs. This is one of the major reasons for the farmers attempting suicide. So the loan waiver is definitely a God send for such marginal farmers who are facing distress.

But again, we cannot generalise that waiving debt is beneficial to improve farmers' condition because it is not possible that every farmer loses his crop and facing distress. There are certainly many who reap benefits from raising crops. This needs to be done judiciously.

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## Banks

The next most important stakeholder in the entire loan waiver process.

Under the pressure of completing targets in Priority Sector Lending, the private and public sector banks are forced to lend even to the big farmers. At the same time, banks have really very less power to collect the loan amount. A Bank's business does not suffer when a poor farmer is unable to repay his debt but it faces the problem when the whole farmer community defaults because of any political party poll promise on waiving the loans or their leaders call, to back on loan repayment. When a bank doesn't get the money back into the system, it will not be able to lend more or even return the depositors money as bank takes risk on lending using depositors money.

## Economy

The total debt waiver granted during FY 18 amounted to 0.32% of India's GDP as per the revised estimates. According to FY 19 budget estimates, states have allocated between 0.1% to 0.8% of the respective state domestic products towards waiving of the farm loans, which again range between 2.0% to 2.98% of their budgeted Gross Fiscal deficit.

Uttar Pradesh, Andhra Pradesh, Maharashtra and recently Karnataka have waived off thousands of crores of farm loans on the pretext of poor farm product prices and drought conditions. So far, loans amounting to over Rs1.5 lakh crore have been waived off. Even the contribution of loan waiver to fiscal deficit of states ranges between 0.08 (Punjab) to 1.87 (Uttar Pradesh) (source- BCCL 2018 & Economic Times)

## Conclusion

Till now there is no clear evidence on whether such waivers help in increasing farm output or farmers income. Farm productivity enhancement through pecuniary incentives like debt waivers is still unproven. Ex chairperson of SBI Mrs Bhattacharya raised her concern about the poll promise of debt waiver by saying "Farm credit waiver will disrupt the repayment discipline of the borrower."

***“Good decisions come from experience, and experience comes from bad decisions.”***