

Farm Loan Waiver : *Can it help in resolving the Indian agrarian distress?*

What is farm loan waiver?

Credit is an important input in agriculture for investment (say for setting a tubewell) or for buying inputs like seeds, fertilisers, etc. There is high indebtedness in farming community. Government in order to resolve farming distress waive off the farm loans and decide to compensate banks for credit thus waived off.

Generally farm loan waiver is conditional like only for small and marginal farmers and for small amount crop loan taken through Kisan Credit Card Scheme etc. Its main purpose is to make farmers eligible for further farm loans.

Why is there a demand for this?

More than 50% of India's labour force is dependent on agriculture. Agriculture is not a remunerative profession especially for small and marginal farmers. Rising input costs, stagnant productivity, low public investment in agricultural infrastructure especially after 1991 LPG reform era, uncertain market prices, unpredictable monsoon etc. makes agriculture a very risky business. And we know this risk is not adequately covered by insurance. As a result we have high indebtedness in agriculture sector resulting in rural distress and high incidence of farmers' suicides. There is a demand from farming community to help them in this situation.

This is also favored by different political parties for political mileage (part of electoral promises). Government of the day can hide its failure in resolving fundamental problems that agriculture sector is facing by giving out these doles.

What are the issues with farm loan waiver scheme?

1. There is no denying that fact that farm loan waiver can certainly alleviate the distressed situation of farmers in short term, but it compromises the fiscal ability of the government to invest in rural roads, irrigation, electricity, agriculture research, agricultural marketing steps much needed for long term sustainability of agriculture sector.
2. It creates a moral hazard: those who can won't pay. It vitiates the credit discipline.
3. Govt. fiscal situation comes under stress: will have to borrow more to fund this and thus crowding out the private investment, especially at a time when Indian economy is saddled with twin balance sheet problem.
4. Bankers would think twice before extending further credit and thus defeating the very purpose of this exercise.
5. Govt. is not quick in compensating the banks and as a result aggravating the NPA and balance sheet problems. Further affecting the Indian economy adversely.
6. Not all farmers have access to formal credit. The farmers who take credit from informal sector at usurious rates are not at all helped.

Farm loan waiver is said to be "good politics but bad economics". It can certainly help in alleviating the immediate distress and help the incumbent win elections but provide no long term sustainability solutions for agriculture sector. Govt. needs to invest in agricultural research and agricultural infrastructure to increase farm productivity that can certainly go a long way in helping our farming community.