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Addressing the issue of loan waivers

What is the issue?

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Direct income support and improving markets and access for farmers are better ways to address agrarian distress than loan waivers.

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What are the concerns?

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- Priority Sector Lending is an important role given by the RBI to the banks for providing a specified portion of the bank lending to few specific sectors.
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- Total PSL lending from domestic scheduled commercial banks to the agriculture sector should be 18% of their Adjusted Net Bank Credit(ANBC).
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- Within the 18% target for agriculture, a target of 8% of ANBC is prescribed for small and Marginal Farmers.
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- However, the Reserve Bank data shows that the share of loans of less than Rs.2 lakhs, typically taken by small farmers, accounts for less than 40% of total farm credit.
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- About 13% of total agri credit was made up by loans of Rs. 1 crore or more which are availed by owners of warehouses, food processors and manufacturers of fertiliser and farm equipment.
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- Thus, powerful interest groups in rural India tend to enjoy the benefits of cheap loans categorised under 'priority sector' lending, which are otherwise intended for small and marginal farmers.
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- Besides, crop loans disbursed to agriculturists leave out tenant farmers.
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- Thus, loan waivers will merely end up aiding big agriculturists, rather than small farmers and tenant farmers.
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- This has made the small and marginal farmers to depend more on informal money lenders, where the interest rates range from 24% to 48%.
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- Also, these loan waivers will hit public investments in agriculture adversely and may even worsen farm distress in due course.
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- Hence, there is a need for financial inclusion of these small and marginal farmers in institutional credit at reasonable interest rates and not outright loan waivers.
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How does the Telangana model serve as an alternate?

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- Rythu Bandhu is a support scheme for farmers in Telangana, which provides cheque payments to farmers based on their landholdings.
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- Under this scheme Telangana government gives every beneficiary farmer Rs 4,000 per acre as "investment support" before every crop season.
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- The scheme covers 1.42 crore acres in the 31 districts of the state, and every farmer owning land is eligible.
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- The objective is to help the farmer meet a major part of his expenses on seed, fertiliser, pesticide, and field preparation. (farm inputs)
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- The government will issue cheques rather than make direct benefit transfer (DBT) because banks might use the DBT money to adjust against farmers' previous dues.
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- The revenue department overhauled the entire land holding records and issued new Pattadar passbooks for land ownership.
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- On the implementation phase, the village revenue officers and agriculture extension officers will keep a tab on whether a farmer who received the subsidy has sowed the crop or not.
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- Thus the scheme provides for higher government intervention on farm inputs(seeds/fertilisers) and lower intervention on farm outputs. (no physical

procurement and stocking of grains from farmers)
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- If a proper demand-supply ratio in markets in ensured, the scheme will reduce the need for MSP itself in the long run.
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What should be done?

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- Bankers and the Reserve Bank (RBI) have often expressed concern that debt waivers can wreck credit culture.
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- The State Bank of India (SBI) Research shows that income support schemes may be a more effective alternative at an all-India level to address rural distress.
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- There are 21.6 crore small and marginal farmers in the country and such a scheme is the only way to support the farmers, apart from ensuring market prices for their produce.
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- It suggested providing Rs 12,000 per family per year in two instalments, which will entail a total spending of Rs 50,000 crore at the national level.
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- Hence, income support scheme should be implemented as an alternate to loan waivers to ensure stability in farm income in the coming years.
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Source: Business Line

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