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Impact of Agriculture Loan Waiver on Indian Economy- A Descriptive Analysis

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ABSTRACT

The contribution of agriculture in gross domestic product is almost 17.32 percent and it provides around 49 percent employment in the total workforce. Constant dependency over monsoon of the Indian farmers has created more stress in agriculture sector causing farmers' suicide and it is one of the key factors to waiving off loans but the increasing number of willful defaulters of loans is destroying the credit culture in the country. It also causes inflation and its benefits are only reaching the selective farmers. Central government and various state governments of India are using farm loan waiver as a tool to win the elections. This research paper highlights the positive and negative sides of the farm loan waiver. It is presented in the form of a descriptive analysis considering the impact of agricultural loan waiver on the Indian economy. Secondary data have been used in this study along with necessary graphs and tables for the purpose of analysis. This study also includes suggestions provided in the report of the internal committee on agriculture formed by RBI, in order to seek alternatives of farm loan waiver along with providing solutions to enhance the welfare of farmers. After a thorough study, this paper concludes that farm loan waiver can provide only a short-term solution and it also can disrupt the credit culture of India., In place of this 'election stunt', to encourage long-term productivity and to increase the income of the farmers manifold in long-run, there should be such a system that maintains in-hand liquidity of money e.g. Direct benefits transfer (DBT) to the farmers, so that they are not dependent only on the crops and there is a need to encourage the allied sector viz. animal husbandry, fish farming or pisciculture etc. Infrastructural changes and ensuring proper price of the crops are the other ways. If the income of farmers will increase then the suicides of farmers can be prevented as well as the rural areas can be saved from the plight.

Introduction

Rural distress due to any natural disaster or unexpected monsoon, often encourage state governments or the central government to give relief to those farmers who are unable to repay the principal amount along with interest. The lockdown during COVID-19 has intensified the loss of livelihood of such people. Generally, waivers are selective in nature, it means, only specific loan categories or type of farmers e.g., in 2008, complete crop loan waiver is offered for only those farmers who have less than two hectares of land holdings or marginal and small farmers; rest farmers benefitted only with 25 percent reduction of their loans. Generally, it is offered for political gains (RBI says) as many state governments promised in its political agenda and its announcements during elections proved it. From the time of RBI's inception in 1935, it was felt that the central bank should pay special attention to agriculture credit. So, the RBI Act,1934 laid the formation of a special agricultural credit department to study the problem and coordinate with the concerned agencies. Its department was rechristened as the Rural Planning and Credit Department (RPCD).

Report of the internal working Group of RBI formed in February, 2019 headed by MK Jain was supported to give recommendations on agricultural credit specifically mentioning the effect agriculture loan waivers on state finances (report in Sept. 2019). Reasons for doing it are like giving relief to the farmers from distressing conditions of poor crops due to repeated droughts, floods or any other national calamity or due to other causes i.e., Demonetization, COVID-19 pandemic etc. In the post-independence period, the nationwide debt waiver initiatives by the Central Government in India are recorded in 1990 and 2008. First one was by V. P. Singh led the government with the outgo of Rs 10,000 crores and the second one was executed by the UPA government of Rs 71,680 crores. After 2014, there was a political stunt of providing debt relief to peasants by different state governments. The following chart shows recent announcements of farm loan waivers by center as well as state governments along with cost of it-

Fig. 1. Recent announcements of farm loan waivers by center as well as state governments along with cost
(Source: RBI, Govt. Estimates)

Review of Literature

Ajit Phadnis (2017) asserts that a loan waiver can help to expand the credit to those farmers who are in crisis. It renews the loans and farmers can benefitted to produce more crops and yield. It benefits the economy directly. It affects the credit discipline but it also prevents the suicides in the economy. Former Prime Minister V.P. Singh had given a loan waiver of Rs. ten thousand crores in 1990 for the first time after that it was a culture of such practices to win the elections. A.K.Tripathi (2017) suggests that waiving off the loans are not an immediate solution of agricultural distress to give him relief, the policy design of various governments would be farsighted. Design policies in such a way that will target the most vulnerable farmers otherwise the problem of moral hazard will arise that will destroy the credit culture of the economy. Charan Singh (2017) used the SAMS as the technique to reduce risks in agriculture. It provides a proper information system to choose seeds, crops, fertilizers and right pesticides for the field. SAMS report also helps farmers to take loans from banks. It will reduce the leakage and make agriculture profitable. The following table showing the year-wise data of farm loan waiver. Nilakantha Rath (2008) analyzed that the share of non-institutional credit has increased between 2002 and 2012. Is the easy availability of non-institutional credit the same across all farm sizes? The larger farmers are more beneficiaries of the institutional credit. Small farmers are still suffering from lack of credit. Due to this, larger farmers are more productive as compared to small farmers. Ram Singh(2017)Farm loan waiver undoubtedly created fiscal pressure on the implementing government. It has created a great concern to the policy makers and researchers. Both center and state governments implemented agriculture debt waiver schemes as major policy interventions but it has benefitted millions of small and marginal farmers in India to mitigate agriculture distress. Ravi (2015) A government announcement on credit waiver is much impacting on fiscal adjustment. The credit institutions have faced very serious consequences about farm loan waive off. Where will the government find the money and what about the agricultural loans? The responsibility of compensating waive off will be done by both center and state and those who have already paid the loans felt cheated.

Table 1. Chronology of farm loan waivers in India.

S.No.	Government	Party in power[14]	Waiver policy Year
1	Haryana State	Lok Dal (LD)	1987
2	Central Govt.	Jan Morcha	1990
3	Kerala State	Communist Party of India (Marxist) (CPI(M))	2006
4	Tamil Nadu	Dravida Munnetra Kazhagam (DMK)	2006
5	Central Govt.	Congress Party (INC)	2008
6	Maharashtra State	Congress Party (INC)	2008
7	Karnataka State	Bharatiya Janata Party (BJP)	2012
8	Chhattisgarh State	Bharatiya Janata Party (BJP)	2012
9	Uttar Pradesh State	Samajwadi Party (SP)	2012
10	Andhra Pradesh State	Telugu Desam Party (TDP)	2014
11	Telangana State	Telangana Rashtra Samithi (TRS)	2014
12	Tamil Nadu State	All India Anna Dravida Munnetra Kazhagam (AIADMK)	2016
13	Uttar Pradesh State	Bharatiya Janata Party (BJP)	2017
14	Punjab State	Congress Party (INC)	2017
15	Maharashtra State	Bharatiya Janata Party (BJP)	2017
16	Karnataka State	Congress Party (INC)	2017
17	Rajasthan State	Bharatiya Janata Party (BJP)	2017
18	Karnataka State	Janata Dal (Secular) (JD(S)	2018

(Source: Phadnis, A. and Aishwarya Gupta. (2019): The politics of farm loan waivers: A comparative study)

Objectives of the Study

This study has following objectives-

- To study the positive and negative aspects associated with farm loan waiver.
- To conduct analysis of the impact of farm loan waiver on the Indian Economy.
- To find out alternative ways to enhance farmers' welfare.

Hypothesis of the Study

This study formulates following hypothesis-

H_0- Farm loan waiver does not significantly affect the Indian Economy.

H_1- Farm loan waiver significantly affects the Indian Economy.

Arguments in Favor of the Farm Loan Waiver

Positive side associated with farm loan waiver is related to the welfare of the farmers. It can save farmers from increasing suicides due to increasing cost and reducing income causing debt cycle for the farmers. With time, the income of the farmers has not increased and inflation is constantly rising. Data reveals that farmers' monthly income remained stable during 2012-17 as it was Rs. 3081 in 2012-13 and Rs.3140 in 2016-17 (almost constant). Currently, farmers are feeling the need for more credit facility and reduction of loan burden through loan waivers.

Arguments in Against of the Farm Loan Waiver

There are many arguments which present an unfavorable picture of the farm loan waiver. The major problem of this step is that landless farmers are not covered under this. Farmers indebted to institutional sources are only benefited from it. NSSO survey of 2013-14 remarked that only 60 percent of indebted agriculture households. i.e. (52 percent of the total household) had taken debts from institutions. It distorts the repayment discipline as chances of intended defaults will rise in future. It does not enhance the productivity of the agriculture sector. Banks are considered less creditworthy to the farmers after such waivers. That's why farmers are forced to rely on lending by the informal sector. It enhances the gravity of non- performing assets NPAs. It also increases fiscal deficit and burden of interest along with affecting long term growth-oriented investments in the field of agriculture by the government. The following chart shows year wise allocation of budgets regarding farm loan waivers by state governments-

STATE	YEAR OF ANNOUNCEMENT	AMOUNT	AMOUNT ACTUALLY PROVIDED IN THE BUDGET					
			2014-15	2015-16	2016-17	2017-18	2018-19*	2019-20**
Andhra	2014-15	240	40	7	35	36	9	1
Telangana	2014-15	170	43	43	30	30		
Tamil Nadu	2016-17	53			17	19	9	8
Maharashtra	2017-18	340				152	68	35
Uttar Pradesh	2017-18	364				211	55	6
Punjab	2017-18	100				4	43	30
Karnataka	2018-19	440				39	120	126
Rajasthan	2018-19	180					30	32
MP	2018-19	365					50	80
Chhattisgarh	2018-19	61					42	
Total		2365	83	50	82	490	425	369
As a percentage of state govt's gross fiscal deficit		2.5	1.2	1.6	11.9	7.7	6.6	

Fig. 2. Fiscal Impact of States Farm Loan Waivers (in billion rupees)

Source: Budget documents of state governments

Alternative solutions are reducing costs related to inputs, generating employment opportunities, reducing risks associated with agriculture, developing infrastructure in rural economies for growth in the agriculture sector, improving the quality of life-style of rural people and market related reforms of agricultural products, consolidation of agricultural land etc.

Impact on State Finances

From 2014, the total farm loan waiver declared by various generations amounted to Rs. 2.36 trillion and out of it, Rs. 1.5 trillion has already been waived. Huge farm loan waiver was announced by the Karnataka Government in 2018-19 of Rs. 440 billion. The actual waivers reached a maximum level in 2017-18 due to the adverse impact of demonetization on farmers' income and it amounted to around 12 percent of the states' fiscal deficit. A farm loan waiver puts pressure on the government resources that the government settles the private debt that a farmer owes to a bank. Its implications are firstly, it may violate Fiscal Reforms and Budget Management Act, 2003 and the fiscal deficit of the concerned governments will go up and secondly, it has to cut down its expenditure. Higher fiscal deficit implies that the amount of money available for lending to private businesses either big or small, will be lower. It also means the cost of lending would be higher and costly fresh credit means there will be fewer new companies and less job creation. On the other hand, if the state government doesn't want to borrow the money from the market and wants to stick to its fiscal deficit target. It will force the state governments to accommodate by cutting expenditure, especially capital expenditure. As far as farm loan waivers are concerned, it is not considered preferable as it hurts overall economic growth along with ruining the credit culture of the economy since such schemes incentivize defaulters and penalize those who pay back their loans.

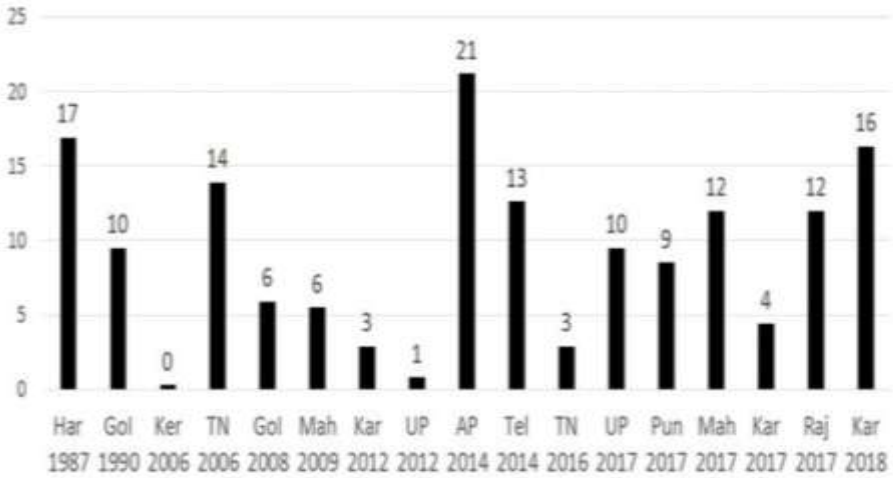

Fig. 3 Loan waiver allocation as percentage of State/Central budget
Source:- Phadnis, A. and Aishwarya Gupta. (2019) :The politics of farm loan waivers: A comparative study

An analysis of the latest state budgets by the National Institute of Public Finance and Policy (NIPFP) showed that on the whole, state governments stick to their fiscal deficit targets but it has a dark side that the way states meet their deficit targets is not by raising more revenues but by cutting expenditure and capital expenditure is cut relatively more than revenue expenditure. This graph shows that after 2017-18, there is huge cutting in capital expenditure as fiscal deficit exhibits downward trend-

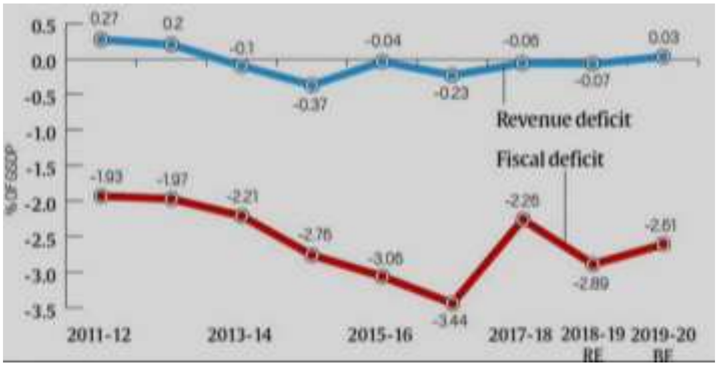

Fig. 4. States Largely Meet Their Deficit Targets
Source: NIPFP

Often, analysis of the Indian economy focuses on the central government's finances alone but the ground realities are fast changing as study of state finances reveals that all the states, collectively, now spend 30 percent more than the central government for farm waiver. This graph shows that central government is not cutting expenditure but state governments are providing benefits of farm loan waiver on the cost of cutting capital expenditure-

Fig. 5. States cut expenditure to meet deficit targets
Source: NIPFP

Further, borrowings of central and state governments are increasing with time and this causes a burden on the budgets of the respective governments. After analysing the trend, we can understand that it is in upward direction-

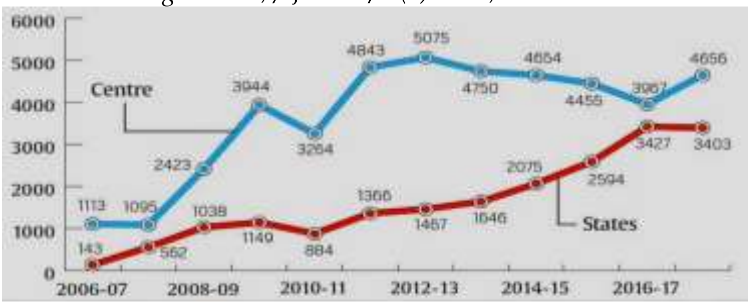

Fig. 6. Net borrowings from the market (in billion rupees)
Source: RBI

Report of the Internal Working Group
Three main aspects studied by the working group-

- Factors that drive agricultural finance,
- Building a cost-effective and inclusive credit system and
- Enforcing credit discipline to judge the impact of loan waivers on state finance and agricultural credit.

The ratio of agricultural credit outstanding to agriculture GDP increased from 0.6 percent in 1950-51 to 10 percent in 1971-72 and 22 percent by 1987-88. It happened due to several policies such as five-year plans, bank nationalization, the bank branch expansion policy and priority sector lending. With time, after LPG reforms, the ratio of agriculture finance declined and it led to the start of Kisan Credit Card Scheme in 1998. Its coupling with other measures paid off as the ratio has reached up to 50 percent level. Institutional source of agriculture credit card with a mere 10 percent share in 1951 now reached 72 percent share. So, the main objective of the committee is to suggest ways to enhance the percentage of institutional finance up to 100 percent.

Recommendations of the Committee
The internal committee on agriculture formed by RBI has provided following recommendations regarding improvements in this crucial sector of our economy-

- Digitize farm records and make them accessible to banks for easier verification of collateral.
- Make a federal institution on the lines of GST council to take the inputs from both the central and state governments.
- Banks should leverage technology in a major way and explore collaborations with Agri-tech companies.
- For small and medium farmers (SMFs), banks should not insist on land records for loans up to Rs. 2 lacs.
- The committee also noted that there is a wide disparity across states when it comes to agriculture credit.
- The ratio of agriculture credit to state GDP is highest at 200 percent for Kerala and just 20 percent for North-East and west Bengal.
- Rural infrastructure development fund (RIDF) set up in 1995 under NABARD, should be used as a tool to deepen credit absorption in these states as it funds from commercial banks to make up for shortfall in priority sector loan targets.
- The report asked state governments to conduct awareness initiatives for land consolidation to achieve economies scale.
- The working group favors DBT compared to interest subvention schemes.
- It proposed that governments should avoid waiver and instead make the existing policies more efficient.
- The Indian agriculture system is a maze with several ministries and organizations responsible for different tasks. Thus, any committee recommendations are often lost in the process. To avoid this, The Jain committee has marked out specific ministries and organizations against each suggestion, which is going to be really helpful.

Conclusion
Past one decade has shown an increasing trend of such announcements indicating the chronic distress situation of agriculture in the Indian economy. After this study, we find that waiving agricultural loans may not be a good move because it may give you some relief in the short-run but in the long run it has nothing to do with productivity and it also encourages farmers to take more loans. Waiving off loans increases the problem of moral hazard and credit culture in the economy. Those who can repay loans also stop doing so, in such a situation, it creates barriers in development of a good credit culture for the economy. It is not just to cut the pocket of honest taxpayer's money by collecting more taxes from them for this purpose. Indian financial institutions also consider such steps irresponsible as actual solutions of this problem are increasing the yield of agriculture, providing direct benefit transfers to the farmers, promoting agricultural mechanization and at the same time it is very important to encourage non-agricultural activities. Therefore, this should not be used as an instrument for temporary solution of the bigger problem of agriculture loans.

State level finances are just as important as the central government finances for India's macroeconomic stability and future economic growth. Thus, farm loan waiver schemes must be customized according to needs of different state governments to help the farmers by lessening their financial burden and the role of collective efforts of central government and state governments is pertinent to achieve the target of doubling the farmers' income.

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