Credit Policy and Loan Waivers

What is the issue?

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- There have been instances of states rolling out farm waiver schemes and the demand for further waivers continues.
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- It is crucial at this juncture to assess the farmers' credit policy, especially in terms of outreach of banks and financial inclusion.
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What are the government's initiatives?

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- One of the prime objectives of India's agricultural policy has been to improve farmers' access to institutional credit.
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- This is to reduce farmers' dependence on informal sources of credit with exorbitant interest rates.
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- The government has thus improved the flow of adequate credit through the nationalisation of commercial banks.
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- And further with the establishment of Regional Rural Banks and the National Bank for Agriculture and Rural Development.
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- It has also launched various farm credit programmes over the years such as -
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i. the Kisan Credit Card scheme in 1998.
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ii. the Agricultural Debt Waiver and Debt Relief Scheme in 2008.
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iii. the Interest Subvention Scheme in 2010-11.

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iv. the Pradhan Mantri Jan-Dhan Yojana in 2014.

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- As a result of all these varied initiatives, the share of institutional credit to agricultural gross domestic product has increased.
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- However, in absolute terms, there are still a large number of farmers for whom formal sources of credit are inaccessible.
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Why formal credit?

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- Studies highlight that institutional borrowers earn a much higher net return from farming per hectare than the non-institutional borrowers.
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- Similarly, access to institutional credit is associated with higher per capita monthly consumption expenditures(in other words, income)
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- Access to formal credit becomes important in reducing poverty, given the large proportion of landless, marginal, small farmers and poor farm households.
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- Formal credit also tends to enhance farmers' risk-bearing ability to take up risky ventures and investments in agriculture that could yield higher incomes.
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- Besides, at the global level, studies indicate that access to formal credit contributes to an increase in agricultural productivity and household income.
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- However, such links have not been well documented in India.
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What is the concern with loan waivers?

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- Going by the statistics, there is a large proportion of marginal, small farmers

who are still out of the formal credit institutions.
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- They remain outside the ambit of the policy of a subsidised rate of interest and resultantly the loan waiver schemes.
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- Clearly, loan waivers would be a relief to the relatively better off and the lesser-in-number medium and large farmers.
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- This is doubtful of making any significant impact on their income and consumption.
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- Thus, would providing loans to farmers at a subsidised rate of interest or their waiver result in over all farmers' welfare is still uncertain.
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- Loan waivers could provide a temporary relief from debt but may not contribute to bringing farmers out of indebtedness and distress, in the long term.
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- A diversion of money towards debt relief, which is in fact unproductive, will adversely impinge on state finances.
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- Besides, the challenge of identifying eligible beneficiaries and distributing the amount exists.
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What should be done?

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- The credit market should be expanded to include agricultural labourers, marginal and small land holders as well.
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- It is essential to revisit the credit policy with a focus on the outreach of banks and financial inclusion.
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- Government should also make efforts to protect farmers from incessant natural disasters and price volatility through crop insurance and better marketing systems.
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Source: The Hindu

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