

Issues with loan wavier schemes

What is the issue?

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Loan waiving will only provide a short-term relief to a limited section of farmers, more sustainable solutions are needed.

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What are the reasons for the farmer sufferings?

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- The problems are aggravated by weather and market risks.
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- Most of the farm households experienced negative return from crop production.
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- Non-farm income comprised 40% of the income of farm households, but access to non-farm sources of income is highly twisted.
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What is the financial situation of farmers?

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- A part of crop loans is likely spent on non-agricultural purposes.
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- Rising expenses on health, education, social ceremonies and non-food items put additional financial demand on farm families.
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- The crop loans of the farmers increased their debt burden.
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- Most of the marginal farmers depend on loans from non-financial institutions.
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- The loans taken by cultivators from non-institutional sources, which

involve high interest rate, is rising faster than from institutional sources.

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How loan waiver schemes will be helpful to the farmers?

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- The ultimate goal of farm loan waiver is to lessen the debt burden of distressed and vulnerable farmers and help them qualify for fresh loans.

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- The success of the loan waiver lies on the extent to which the benefits reach the needy farmers.

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- Recently a few States like Uttar Pradesh, Maharashtra, Punjab and Karnataka have rolled out farm loan waiver schemes.

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What are the draw backs with loan waiver schemes?

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- Out of the indebted agricultural households, about 40% borrowed only from non-institutional sources.

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- All such households are outside the purview of loan waiver.

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- It provides only a partial relief to the indebted farmers as about half of the institutional borrowing of a cultivator is for non-farm purposes.

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- In many cases, one household has multiple loans either from different sources or in the name of different family members, which entitles it to multiple loan waiving.

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- Loan waiving excludes agricultural labourers who are even weaker than cultivators in bearing the consequences of economic distress.

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- It severely erodes the credit culture, with dire long-run consequences to the banking business.

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- The scheme is prone to serious exclusion and inclusion errors.

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How this issues can be addressed?

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 - Strengthening the repayment capacity of farmers by improving and stabilising their income is required.
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 - Identifying vulnerable farmers based on some criteria and giving them financial relief is needed.
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 - The sustainable solution to indebtedness is to raise income from agricultural activities and enhance access to non-farm sources of income.
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 - Improved technology, expansion of irrigation coverage, and crop diversification towards high-value crops are appropriate measures for raising productivity and farmers' income.
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 - Regulation on remunerative prices for farm produce is to be done.
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 - Implementing long-pending reforms in the agriculture sector with urgency is required.

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Quick fact:

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Non - Farming activities in India includes activities done by the farmers excluding agriculture, like:

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 - **Dairy** - It is a common activity of farming community, the milk is sold in nearby villages and towns.
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 - **Small scale manufacturing**(cottage industries.)-Basket weaving, coir making, bio manure production, wooden toys, candle making.
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 - **Shops**-Setting up small shops with the products which they make or buying limited quantity of products from local markets.

- **Transport** -Providing transport services from the rural parts to local urban centres with the bullock carts, tractors, etc.

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Source: The Hindu

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