

The Farce Called Farm loan waivers

What is the issue?

\n\n

\n

- Farm loan waivers have been a popular political instrument with governments to address agrarian stress temporarily.
- While this is bad economics, a significant part of such loan waivers also don't actually benefit the needy farmers, which is a cause for caution.

\n

\n\n

What are recent trends in this context?

\n\n

\n

- Many states, including "Punjab, Uttar Pradesh, Maharashtra and Karnataka have implemented packages for loan write-offs.
- As farm loan waivers are a preferred "political" answer to farm distress, more populist announcements are likely in the run-up to 2019 elections.
- While farm loan waiver is not a solution to agrarian distress, it is an effective immediate painkiller before the long process of "repair" can commence.
- But with most governments see it merely as an electoral tool with little vision further to address the larger crisis in hand.

\n

\n\n

What are the concerns with this trend?

\n\n

\n

- A majority of farmers do not take loans from banks and it is often the

comparatively better-off farmers who are able to access bank credit.

\n

- All bank loans are supposed to be insured under various insurance schemes, implying crop failures shouldn't necessarily concern the borrowers.

\n

- Therefore, theoretically, loss due to natural calamities should be taken care of by insurance, but this isn't the case, which is absurd.

\n

- Notably, the 12 largest corporate defaulters listed by RBI, owe the banks a total sum of over Rs 2.5 lakh crore, which is only a small portion of the NPAs.

\n

- In comparison, the total farm loan write off (due to crop failures) in the country in 2009 was a significant Rs 52,000 crore.

\n

\n\n

What do the numbers in Punjab's loan waiver scheme say?

\n\n

\n

- The new government in Punjab announced a farm loan waiver immediately on assuming office.

\n

- When they got around to analysing the portfolio of loans, they stumbled upon some inconvenient details.

\n

- Punjab has about 1 crore acres of cultivated land and the short-term credit required per season at the recommended rate of Rs. 22,000 per acre.

\n

- On this base, it is estimated that Rs. 22,000 crore is needed, whereas the crop loans outstanding of all banks were around `63,000 crore.

\n

- While there are around 20 lakh farmers in the state, all banks together have issued 40 lakh Kisan Credit Cards.

\n

- Farmers would need money for other purposes like education of children etc, but that doesn't justify disproportionate agricultural loans.

\n

\n\n

What is the way ahead?

\n\n

\n

- Successive Union finance ministers have been announcing increased targets for short-term agricultural credit in their budget speeches.

\n

- Hence, many banks, under pressure to perform, find the easy way out by giving larger than required amounts based on land as collateral.

\n

- While a detailed bank-wise data is not available, anecdotal evidence suggests that some banks are “better” at this ‘fixing’ than others.

\n

- Considering these issues, it is high time that the RBI and central government scrutinise the profile of agro-loans being doled out to weed out proxies.

\n

\n\n

\n\n

Source: Financial Express

\n

