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Farm loan waiver: a closer look and critique

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Loan waivers are at best temporary palliatives to the problems facing rural India. Regrettably, the powers that be and the powers that want to be have rarely been willing to confront the difficult and complex problems.

The decision to waive farm loans on an unprecedented scale announced in the latest Budget has attracted widespread comment. Almost all political parties have welcomed the move. In fact, most of them were vociferously clamouring for such a measure to relieve the farm sector from a "crushing" burden of debt. The Budget speech has announced the decision to waive farm loans and also estimated the cost (Rs. 60,000 crore) that government has to bear. It does not spell out the basis of the estimate nor of the institutions, loan categories, and class of borrowers that will be covered by the scheme. Several aspects need to be clarified:

1. By definition, the scheme can apply only to those who have outstanding loans with institutions. Nearly three-fourths of all rural households and 60 per cent of farm households report that they do not have any outstanding debt. All households with outstanding debt may not have outstanding institutional debt. Thus the large majority of even farmers will not benefit from the waiver. If only farmer loans are eligible, the proportion of beneficiaries will be even smaller.

2. Both access to institutional credit and the proportion of outstanding debt are skewed in favour of larger farms. Cultivator households with less than 2 hectares account for 85 per cent of all farm households; and report a lower incidence of debt (46 per cent) and of outstanding debt (30 per cent) than the overall average.

3. Institutional loans include direct lending (to meet needs production as well as consumption) and "indirect lending" for allied activities (such as input distribution, trading, transport and processing of farm produce). The latter

comprise about half of outstanding loans of cooperatives; 55 per cent in regional rural banks; and a little under half in scheduled commercial banks. There is hardly any justification for waivers on indirect loans.

4. The magnitude of outstanding debt of rural households, going by National Sample Survey (NSS) data, is less than outstanding debt reported by the institutions in the cooperatives and substantially so in regional rural banks. Since both are intended to lend mostly in rural areas, this difference suggests that they also carry a sizeable portfolio of non-household, non-rural loans.

5. The basis of the estimate that the waiver will cost Rs 60,000 crore is far from clear. There is good reason to believe that a generalised waiver of all overdues will benefit non-rural borrowers to a considerable extent; that the large majority of rural households, including those in the below 2 hectares category will not benefit; and that the magnitude of benefit accruing to them will be considerably less than Rs.60,000 crore. Benefits in rural areas will accrue to a rather small fraction of households and the magnitude of relief to the beneficiaries is likely to be considerably less than the cited figure.

Larger adverse effects

These considerations argue for a close second look at the rationale, scope, and intent of the scheme. But it is also necessary to warn the public of the larger adverse effects of waivers on the rural credit system. Supporters of the scheme argue that this one time relief is a necessary measure to address the current agrarian crisis and that it would enable farmers to restart on a clean state. But this has been said every time in the past when such waivers were announced. Experience shows that waivers encouraged borrowers to presume that they can sooner or later get away without repay-

ing loans. It reinforces the culture of wilful default, which has resulted in huge overdues and defaults in all segments of organised financial institutions. The deterioration in the cooperative credit system is, in large measure, due to the conscious state policy of interference in the grant and recovery of loans.

Cooperatives have by far the greatest reach in terms of accessibility, number of borrowers, and delivery of credit to the rural population. Concerned by their near collapse, the Central government set up a task force to suggest ways to arrest the trend and revive them. The task force suggested radical changes in the legal and institutional framework essential to enable and induce cooperatives to function as autonomous and self-regulating entities. It emphasised the need to eliminate government interference in grant of loans, recovery processes, and waiving of dues from borrowers.

Against spirit of reforms

The Central government accepted the recommendations. Extensive consultations with States led to a political consensus to accept and implement the reform package. The Central government has committed to provide around Rs. 18,000 crore to clear accumulated losses over a period of time and linked to actual fulfilment of specified conditions. Most States have since given their formal commitment to this effect and agreed to abide by the conditions for availing of Central financial assistance. Supervised implementation is under way and has made significant progress in several States. This programme thus already covers a significant part of what is being attempted in the current waiver scheme.

It is ironic that the decision to go for a general waiver comes even as the above reform programme is under way. It obviously goes against the central thrust

and spirit of the reform programme. Since the proposed general waiver is wholly underwritten and funded by the Centre, the need for the kind of restructuring and conditionality attached to central assistance is likely to be questioned. Doubts will be raised and pressures will build to dilute or even to override the programme. It is very important that the government clarifies its position on the status of the current reform programme and how such pressures can be contained so that apprehensions about the prospect of much-needed institution reform in cooperative credit institutions are to be allayed.

Loan waivers are at best temporary palliatives to the problems facing rural India. Significant and sustained improvement in the welfare of the rural population is not possible without a faster pace of growth in the rural economy and an improved quality of education and health services. Increased public spending will not achieve this. It is essential to address deeper problems rooted in the overexploitation and degradation of land and water; government policies that encourage wasteful use of resources; the inefficiency of public systems responsible for implementing programmes, regulating the use of common service facilities, and ensuring quality infrastructure and support services.

Regrettably, the powers that be and powers that want to be have rarely been willing to confront and address these difficult and complex problems. The chances that their attitudes will change are far less in the current state of intense and contentious competitive politics. That does not augur well for the future of rural India.

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