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PROS AND CONS OF FARM LOAN WAIVER SCHEME: A REVIEW

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Abstract

This paper examines the impact of loan waiver scheme in Karnataka state. Banks follow loan waiver scheme without understanding the fiscal pressure and this tendency is followed and further supported by political parties. Loan waiver scheme augments fiscal deficit of the state as the gross expenditure of the state government exceeds the gross revenue which in turn causes low credit ranking for the state and so the cost of borrowing increases for the state. Informal credit sources of the rural economy are completely neglected and farmers turn to local money lenders for further loans. It becomes a vicious cycle. Loan waiver is a seasonal relief and not an eternal relief for farmers because farmers frequently put up with distress in approaching seasons and loan waiver is not at all perpetual relief for their agricultural distress. Loan waivers are a contrivance for politician to gain votes as a politician always eyes on vote banks. This leads to turmoil among political parties and they compete to announce waivers before elections. The farm loans are transferred from the assets side of banks balance sheets to the liabilities side of the government books as part of waivers the loan goes to out of books of the bank and gets replaced by a bond issued by the state government. But for the state government this is a debt obligation that has to be serviced by paying interest on these bonds. This creates damaging resentment and bitterness among political parties. Farmers who are eager to shed off their loans become a handy tool for these politicians. Hard and stringent fiscal policy interventions are required to decrease the unconstructive factors currently affecting the farmers. All political parties need to think of future financial status of the state economy before announcing loan waivers. Farmers need some package relief in agriculture sector but not loan waiver which furthers their agony.

Key words: Karnataka State, Loan Waiver Scheme, Impact on Economy, Evaluation

Introduction:

The loan waiver scheme was launched in Karnataka during financial year. It is waiving of the real or potential liability on the person or party who has taken out a loan through voluntary action. Loan waivers for loans taken by farmers are unique to India. Economists have generally regarded this to be a populist and fiscally risky measure that can cause long term problems. The loan waivers can constitute a significant fraction of GDP. The first nationwide farm loan waiver was introduced in 1990, it cost government 10 thousand crore which was a very huge amount and it made a very negative impact on the national economy for decades later.

This was taken as a measure to make farmers happy because they were demanding loan waiver because of drought like conditions in northern India. Hence Prime minister VP Singh in implemented this scheme in 1990.

1. Agricultural debt waiver and debt relief scheme – 2008
2. Loan waiver- Telengana and Andhra 2014
3. Farm loan waiver Karnataka 2017
4. Farm loan waiver in Punjab 2015

1	Loan repayment has comedown
2	Farmers are not transacting in the lending banks
3	RBI opposed waiver scheme
4	Public sector banks have been coming under stress
5	Farmers are withdrawing their deposits in anticipation of waivers
6	Change in the ruling party is often misleading
7	It is highly impacting elections, election manifesto are fakely attracting people with loan waivers
8	GDP growth is also hit by waivers
9	Farmers with large landed properties also come under waiver scheme
10	Fiscal revenue sources are nullified

The Case of Farmers and Loan Waiver - Farmers are a distressed lot, they need support from the government climatic changes have left them panic. There are severe farmer unrest activities following sudden rise and fall in farm prices. Loan waiver scheme is a scheme by banks towards relinquishing bank loans taken by individuals. The scheme was introduced in India in 2008. The scheme calls for scrutiny in the following areas.

1) Loan waiver scheme and its impact on economy
2) Loan waiver scheme and pressure on capital
3) Loan waiver scheme and social impact
4) Loan waiver scheme & administrative interventions
5) Loan waiver scheme & political agenda
6) Loan waiver scheme & electoral politics
7) Loan waiver scheme & impact on sustainability
8) Loan waiver scheme & women empowerment
9) Loan waiver scheme & impact on rural development

10) Loan waiver scheme & impact on inclusive banking practices
11) Loan waiver scheme & impact on development
12) Loan waiver scheme & impact on GDP
13) Loan waiver scheme & impact on bank cash reserves and over drafts

Challenges of Loan Waiver Scheme

1. Loan waiver scheme sends a negative signal to the markets. The fiscal market is the hardest hit.
2. Honest farmers some of whom a take more loans to repay earlier loans or use their saving to repay loans feel cheated by the government order
3. Loan waiver scheme disrupts credit regulation of the banks
4. Farmers always become aspirers to waiver through small cooperative banks and non scheduled banks too.
5. Farmers need some package relief in agriculture sector but not loan waiver which furthers their agony.
6. Farmers turn into wilful defaulters, they become nonpayer and a debtor forever.
7. Informal credit sources of the rural economy are completely neglected and farmers turn to local money lenders for further loans. It becomes a vicious cycle.
8. Farmers often take loans from local money lenders and very recently they are turning towards banks for money loans. But marginal and small farmers still find a local money lender to advance loans. Such farmers are at the receiving end.
9. Loan waiver scheme increases fiscal deficit of the state as the gross expenditure of the state government exceeds the gross revenue which in turn causes low credit ranking for the state and so the cost of borrowing increases for the state.
10. Affluent and adequately rich farmers also take loans in the expectation of a waiver by the government this impacts the farmers who genuinely need loans.

Loan Waiver Scheme is a not Entrained in Fiscal Circles because

1. **Not an eternal relief** - Loan waiver is a seasonal relief and not an eternal relief for farmers because farmers often countenance distress in approaching seasons and loan waiver is not at all everlasting respite for their agricultural distress.
2. **Increase the fiscal deficit** - Loan waivers not only increase the fiscal deficit and interest burden of the estates but also limit its ability of the state to undertake productive capital expenditure in the agricultural sector. It affects the long term growth in the sector.
3. **Increasing Demand for loan waivers -** Providing loan waiver in some states encourages farmers from other states to demand loan waivers even in situations when they do not need loan waivers. It becomes a trendy approach to demand waivers and destabilize administration with farmers' strikes, raastha roko, state bandh etc.
4. **A Tool For Politician** - Loan waivers are just a tool for politician to gain votes. This creates furore among political parties and they vie with each other to publicize waivers before elections. This creates detrimental antagonism among political parties. They fight to win farmers votes through illegal means

without knowing that this waiver drive will cost the state income resources very hardly disrupts state economy to the core.

5. **Permanent solution** is **a myth** - Loan waiver scheme is not all a permanent solution all farmers need to understand this before demanding loan waiver. They should realise that agricultural prospects are declining, crop productivity is decreasing, climatic precision is missing, agro inputs are dwindling, price stability is misleading and totally cultivation prospects are diminishing.
6. **Impacts State Finances** - Loan waiver scheme impacts the state finances and its detrimental impact on economy cannot be compensated by any number of stringent fiscal measures. The farm loans are transferred from the assets side of banks balance sheets to the liabilities side of the government books as part of waivers the loan goes to out of books of the bank and gets replaced by a bond issued by the state government. But for the state government this is a debt obligation that has to be serviced by paying interest on these bonds.

Conclusion:

Thus, loan waiver scheme in Karnataka state needs to be tackled with robust mechanism to check fraudulent errors and fiscal mis-management. The unconstructive impact on economy needs to be contained through ombudsman and rigorous monitoring at all levels. Inflexible and stringent policy interventions are required. Farmers need some package relief in agriculture sector but not loan waiver which furthers their agony. Loan waiver scheme is not all needed for a developing economy like India because loan waivers do not support economic growth, fiscal prospects or farmers' sustainability.

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