

Farm loan waivers: Chinks in PM Narendra Modi armour

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Faced with farmer agitations across the country, and fairly violent in some areas, it is not surprising the government should try and fix the problem with a massive dollop of subsidy. While this year's budget had promised a sum of Rs 15,000 crore as interest-rate-subvention—to keep the effective rate of farm loans low—this has been increased by 36%, to Rs 20,339 crore. As a result, in addition to the loan waivers that more states are now giving or planning to give, farmers will also be able to get their loans cheaper from banks. Whether this will douse the fires is not clear for a variety of reasons, the most important of which is the fact that



there is, as yet, no mechanism to ensure farmers get a higher price for their produce except for a handful of crops like wheat and rice where the government fixes a minimum support price (MSP) and also buys a substantial proportion of crops at this price.

While this important issue remains unaddressed, other factors need to be taken into account as well as far as the loans are concerned. For one, with 45% of farm credit coming from the non-banks, the higher interest-rate subvention as well as the loan waivers do not help a large section of farmers. And, to the extent, the interest-rate subvention is given to large farmers, the smaller ones lose out on an important benefit. Also, as Credit Suisse points out, there is a general slowing of banks loans to agriculture—to a mere 1% in April—and, in states like Andhra Pradesh and Telangana that have done loan waivers in the past, there has been an even sharper reduction.

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An additional point, made by Icrier researchers like Anwarul Hoda, Ashok Gulati and Purna Terway, is that there are very large leakages in government loan programmes. Icrier's study totals up the cost of agricultural inputs, including labour, in various years and finds the proportion funded by short-term bank credit rose from 16.8% in FY98 to 84% in FY12 and to a mind-boggling 100% in FY13. If all agriculture's short-term credit needs are taken care of by banks, Icrier asks, how can 44% of loans to agriculture (mostly short-term) also be coming from the non-institutional sector? In other words, it is likely that a large part of subsidised short-term credit is simply being deposited by farmers in fixed deposits to get the interest arbitrage. Analysis by R Ramakumar and Pallavi Chavan found that, for instance, as much as 46% of the annual disbursement in short-term credit in FY09 was made after the rabi sowing had ended; a similar pattern was seen in FY14. In which case, as in the case of other subsidies, the government needs to start linking farm credit and interest rate subvention with Aadhaar numbers.