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LIFELINES BEYOND FARM LOAN WAIVERS

Relevant for: Indian Economy | Topic: Agricultural Finance & Insurance

Thousands of farmers participate in the six day long march, in Mumbai on March 12, 2018. Tens of thousands of farmers arrived in Mumbai demanding, among other things, a waiver of farm loans and fair prices for their produce as the agriculture sector struggles amid years of declining earnings. | Photo Credit: AP

Rural agrarian distress is firmly at the centre of the national discourse today, triggered by the recent Assembly election results in the Hindi heartland as well as continuous farmer agitations in the past two years (*picture*). Just a month ago, the farmers' march in Delhi highlighted the reality of their deprivation, anger and resolve. Quite remarkably, their presence rallied the urban middle classes to march in solidarity, and leaders of major political parties to pledge support.

A farm loan waiver was among the first steps taken by the three new governments in Rajasthan, Madhya Pradesh and Chhattisgarh, and has understandably set off a debate about its usefulness. In fact, this is only the latest round of loan waivers. Since 2014, there have been similar moves in Telangana, Karnataka, Andhra Pradesh, Maharashtra, Uttar Pradesh and Punjab, which are States run by various parties. The political system is essentially responding to a cry of distress by addressing the direct point of pain. It is their mounting debt burden that is pushing farmers to despair and suicides. The NSSO Situation Assessment Survey of Agricultural Households (2013) shows that 52% of farming households are indebted, with rates as high as 89-92% in some States. The quantum of debt has increased enormously, especially from informal sources. Indebtedness has become the elephant in the room that cannot be ignored.

A loan waiver is only an element of immediate relief. It is an acknowledgment that farmers have been pushed into debt due to the systemic failures of the government. The burden on farmers on account of just three items (lack of compensation during drought and disasters, the failures of the crop insurance scheme, and the deficit due to prices falling below the announced Minimum Support Prices) runs to tens of thousands of crores every season. Farmer organisations can justifiably claim that it is the nation that is indebted to the farmers, and not the other way around.

But the key questions are: how can one ensure that its benefit reaches small and marginal cultivators who are the ones who really require relief? And how does one guarantee that the same situation is not replayed five years later? Repeated loan waivers used every few years as election sops may be in the interest of political parties but are not in the interest of farmers. Immediate relief should be accompanied by a long-term systemic solution to indebtedness.

The unique aspect of the ongoing farmers' movement is that their demand goes beyond a one-time loan waiver — they want enactment of a law for freedom from indebtedness. The Bill, which has been developed by the All India Kisan Sangharsh Coordination Committee, incorporates two key elements of reform: a functional institutional credit system which is accessible and accountable to all cultivators, and protection from debt trap in bad years.

First, it guarantees all farmer access to institutional credit; this covers not only land-owning farmers but also sharecroppers, tenants, adivasi and women farmers, and animal-rearers. It requires the registration of all cultivators and providing them Kisan credit cards. This is critical because marginal and landless farmers are mostly excluded from institutional credit, thereby putting them at the mercy of predatory lending by moneylenders and input dealers. Tenant farmers who lease land from other land owners are especially vulnerable. A study by Rythu

Swarajya Vedika in June 2018 showed that 75% of farmer suicides in Telangana are by tenant farmers. The NSSO Situation Assessment Survey (2013) showed that the average debt from institutional sources for small and marginal farmers was only 17,570 per household, and 1,41,804 for medium and large farmers. The Reserve Bank of India did issue guidelines in 2014 for extending loans to Bhoomi Heen Kisan (landless farmers) and for a debt-swapping scheme to convert informal loans of farmers into bank loans, but they have remained on paper.

Second, it establishes farmers' distress and disaster relief commissions at the national and State levels, based on the model of Kerala's Farmers' Debt Relief Commission. Based on incidences of natural disasters, extensive pest attack and such calamities, the commission can recommend declaration of certain areas or crops as distress-affected in any particular year. Thereafter, it has the power to order measures of debt relief, which may include loan rescheduling, interest waiver, one-time settlement, discharge of debt in instalments, or, in an extreme situation, immediate discharge of debt. The State-level commission is also empowered to pass orders regarding non-institutional loans of distress-affected farmers.

The principle is that farmers who suffer losses due to circumstances entirely out of their control deserve to be protected. Given that agriculture is a key national enterprise, the concepts of limited liability and bankruptcy protection need to be adapted to the farming sector. This approach provides targeted protection to distressed farmers when they require it, rather than allowing debt, distress and suicides to accumulate until an election year. At present, crop insurance with its inadequate coverage and payout is unable to fulfil that role, but distress relief would include any payout from crop insurance.

In addition to reforming the credit system, agriculture should be made profitable by ensuring fair remunerative prices, lowering the cost of cultivation, and promoting viable farmer collectives and sustainable models of agriculture.

The challenge before political parties and governments is to deliver on the institutional solutions demanded by farmers. The farming community is not likely to relent if governments adopt a business-as-usual approach and kick the can down the road for the next term.

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