

1. **The ultimate goal of farm loan waivers is to lessen the debt burden of distressed and vulnerable farmers and help them qualify for fresh loans. However, this practise suffers from several drawbacks. Discuss.**

Answer :

Since last year, many states including UP, Maharashtra and Punjab have announced farm loan waivers and similar demands have risen in other States. Such waivers are meant to reduce farmers' distress and suicides, provide them short-term relief and make them eligible for fresh loans.

But such waivers suffer from the following **drawbacks**:

- **Populist measure:** These are used as poll promises to win elections at the cost of taxpayers' money.
- **Moral hazard:** Waivers indirectly penalise sincere and law-abiding farmers, who make repayments on time. Thus, it kills the repayment culture subjecting the banking system to higher stress.
- **Poor economics:** It adds to the fiscal deficit as government borrowings increase. These borrowings crowd out the private sector investment and cause interest rates to rise thus hampering the pace of economic growth.
- **Inclusion and exclusion errors:** The CAG report pointed out such errors holding that the 2008 waiver did not particularly help small and marginal farmers.
- **Impact on PSBs due to higher exposure:** Despite reimbursement by the government, such schemes create second order impact in terms of impaired credit discipline and low loan availability.
- **Selective in nature:** Only certain loan types (e.g. crop loan), categories of farmers or loan sources may qualify. Exclusion of investments in allied activities etc. dampen the effect of waivers.

To address these drawbacks, following long-term solutions should be adopted:

- **Strengthening rural credit cooperatives**, to eliminate informal sources of credit.
- **Subsidizing and increasing coverage of crop insurance** via attractive schemes such as Pradhan Mantri Fasal Bima Yojana etc.
- **Undertaking strategies to increase the resilience of Indian agriculture** such as building irrigation infrastructure, connecting rivers, adopting dry land farming, climate resilient Indian agriculture, crop diversification, changing cropping patterns, promoting land leasing and contract farming, removing supply chain bottlenecks, APMC reforms etc.

Loan waivers are short-term solutions and achieve little towards lessening the debt burden of distressed and vulnerable farmers. Instead, long-term sustainable steps should be preferred over populist measures.

PRACTICE QUESTIONS

Answer the following Questions

1. Minimum Support Price (MSP) of crops is a short term solution for agricultural distress which creates long term problems. Examine. Suggest measures to overcome the limitations of the MSP regime.
2. With women playing an increasingly significant role in the Indian agriculture sector, gender specific interventions can be the key to improving agricultural productivity. Discuss.