

**FARMER LOAN WAIVERS IN INDIA AND THEIR EFFECT ON THE
TREND OF FARMER SUICIDES IN INDIA**

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Abstract

Farmer Loan Waivers have become the standard political answer to farmer strikes and a method for appeasement of farmers to ensure victory in elections in India which has been showcased in the 2018 State legislative elections wherein there has been a spate of promises of loan waivers especially in the States of Madhya Pradesh and Chhattisgarh. The Loan Waivers are generally undertaken under the motive of relieving the distress of farmers and thus in part bettering the economic situation of farmers and reducing the rates of farmer suicides in India but they can be a problematic decision especially for States with already high levels of debt like Madhya Pradesh. While normative assumption is that farm loan waivers would help reduce the farmer suicide rates and improve, at least temporarily, the economic situation of farmers in debt and distress, there has been no conclusive evidence to back the assumption substantively. This research article aims to better understand the impact that farm loan waivers have on the trend of farmer suicides in an attempt to better understand the on-ground impact and effectiveness of farm loan waivers in India.

Keywords

Loan waivers, Farmer suicides, agricultural credit, NPAs, Farmer strikes, Madhya Pradesh

Background

The Agricultural and Rural Debt Relief Scheme came into force in May 1990 and was India's first nationwide agricultural loan waiver scheme. The scheme was spearheaded by the VP Singh administration in its first year of power with the motive of providing relief to the distress that farmers faced due to high levels of debt (Nirmal, 2014). Impact analyses and research on the Agricultural and Rural Relief Scheme showed an increase in defaulting by borrowers especially by non-beneficiaries as they expected that a similar scheme would relieve them of their loans in the future (Shylendra, 1995).

Loan waivers have become a standard demand by farmers and a solution that is implemented by the government usually, citing the economic distress of farmers as their motivation behind the same. The idea of loan waivers has been a contested one since the implementation of the Agricultural and Rural Debt Relief Scheme. In 2008 the Government appointed expert group on agricultural indebtedness spearheaded by Dr. R.Radhakrishnan submitted its report which fell short of recommending farmer loan waivers to be a solution to agricultural indebtedness while putting forth that indebtedness caused by a lack of cost reducing technologies that can make the cultivation remunerative (Expert Group on Agricultural Indebtedness, 2007).

In the 2008-2009 budget presentation, then Finance Minister, P. Chidambaram while acknowledging that loan waivers were not recommended by the expert group announced a scheme for debt waiver and debt relief for farmers (Chidambaram, 2008) that would cost the Government of India 52,259.86 crores INR to help 3.73 crore small or marginal farmers (PTI, 2008). The Agricultural Debt Waiver or Debt Relief Scheme (ADWDRS) was a majorly populist scheme that played a major factor in the reelection of the United Progressive Alliance Government in the 2009 general elections as it was assessed that States that received more waivers were the ones where the Indian National Congress fared relatively better (Thakur, 2009).

The Scheme was touted for the motive behind it and was upheld as a major success of the administration but received major criticism by economists most notably in the World Bank Group funded paper entitled “The Economic Efforts of a Borrower Bailout: Evidence from an Emerging Market” wherein the fact that this scheme punishes the people who ensure that they repay their loans was reiterated. The paper also concludes that there was an increase in the defaults following the implementation of the scheme among borrowers who were previously in a good standing which is the result of the Agricultural Debt Waiver and Debt Relief Scheme that punished productivity (Gine & Kanz, 2014).

The footsteps of the ADWDRS were followed in the States of Andhra Pradesh and Telangana in 2014. In Andhra Pradesh, the Telugu Desam Party promised farmer loan waivers to ensure victory in the election and to help relieve the farmers of their distress which would cost the State 24,000 crores INR. The Government claimed that through the Rytu Runa Mafi Scheme around 25.54 lakh farmers received a one time payment and 35.56 lakh farmers were being paid for in five equal installments. It became difficult to measure the impact and result of this waiver as the scheme was followed by droughts in Andhra Pradesh and Telangana. A statement by the Andhra Pradesh Planning Commission Vice-President Kutumba Rao informs that this scheme was a reference point for the Maharashtra and Uttar Pradesh Government to begin implementing a similar scheme in their own States (Deccan Chronicle 2017).

The Telangana loan waiver was also promised in the 2014 elections and was fulfilled following the victory of the Telugu Rashtra Samithi in the State’s first assembly elections which cost the State 16,372 crore INR and benefitted around 35 lakh farmers in the State (Business Line, 2017). The major criticism for these schemes came from the then Reserve Bank of India Governor, Raghuram Rajan as he stated that the waivers cannot hold merit and may lead to beneficiaries anticipating regular loan waivers and not paying in fear of losing the waivers (PTI, 2014).

The loan waivers in Andhra Pradesh and Telangana were followed by announcements of similar waivers in Tamil Nadu, Maharashtra, Uttar Pradesh and so forth. Repeated promises of loan waivers stirred a statement from the then RBI Governor Urjit Patel who reaffirmed his reluctance

towards loan waivers by saying that these loan waivers will cause higher than budgeted revenue expenditure that will lead to fiscal deficits and will have an adverse effect on lenders (Roy, 2017).

Despite Statements from the Secretary for Agriculture during the implementation of the ADWDRS claiming that the loan waiver was a one time scheme (Tewari, 2017) the Indian National Congress' loan waiver promises in Chhattisgarh and Madhya Pradesh played an indispensable role in the victory of the Congress in the States in question in the 2018 elections showcasing the paramountcy of loan waivers in the current political scenario. The loan waivers in question have been announced for the aforementioned States(IANS, 2018).

The lack of evidence on the assumption that the government providing farm loan waivers has an effect on the rate of suicides in the States is argued throughout the course of this research paper. However while the lack of evidence with regards to the impact on rate of farmer suicide is evident there is evidence showcasing the financial burden such a move would cause to the State.

In the State of Madhya Pradesh alone there are about 22.18 lakh farmers who have defaulted payments on loans which is estimated to cost the State a total of 14,344 crores INR to waive off. This is in a time when Madhya Pradesh is reeling under a debt of 1.60 lakh crores which adds to the need for tangible results against the investment made in farm loan waivers (Trivedi, 2018).

Given the politicisation of economic solutions to the agrarian crises and the widespread demands for farm loan waivers it is indispensable to assess and understand the result of the initiatives undertaken. Research on the claimed result of farm loan waivers in relieving the economic distress of farmers and thus reducing the farmer suicide rate is paramount to find evidence based solutions to the crises that farmers face in India.

The Agricultural Debt Waiver or Debt Relief Scheme of 2008

The Agricultural Debt Waiver or Debt Relief Scheme was announced largely to address the indebtedness of farmers. The scheme entailed that “all agricultural loans disbursed by scheduled commercial banks, regional rural banks and cooperative credit institutions upto March 31, 2007

and overdue as on December 31, 2007 would be covered". The waivers were focused mainly on the welfare of marginal (ie:holding upto one hectare) and small farmers (ie: holding upto two hectares) as their loans would be completely waived off as part of the scheme in question.

For the other farmers a one-time settlement scheme was announced wherein a rebate of 25 per cent would be given against payment of the balance 75 per cent. It was also announced that the implementation of the scheme was to be completed by June 2008 to allow farmers to borrow fresh loans in accordance with normal rules of lending (Chidambaram, 2008).

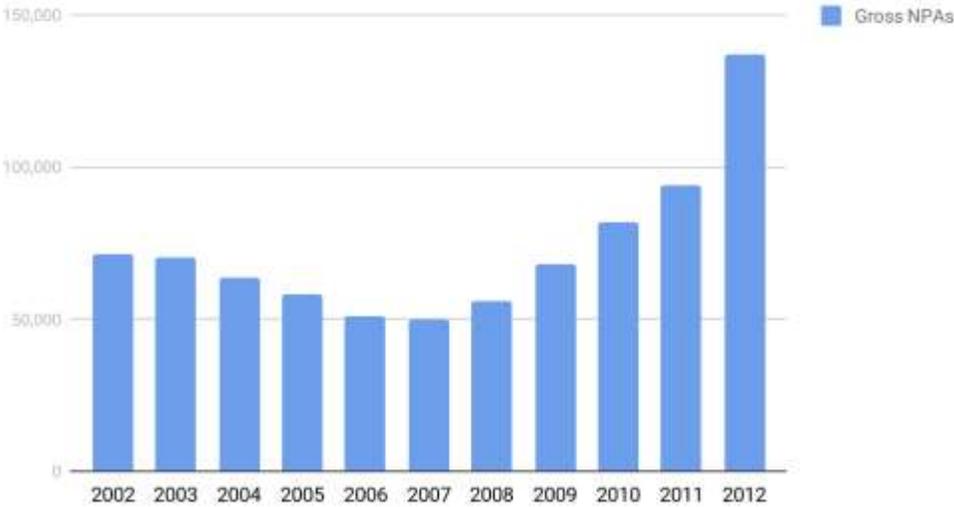
Following the announcement of the scheme however it received criticism from farmer organisations because the farmers in the dry regions would not benefit from this scheme as the farmers held 5 acres of land in dry regions on average. Follow up of these demands came from Congress General Secretary, who demanded to make the scheme inclusive to the farmers which would lead to the cost of the scheme rising to 71,000 INR to include farmer engaged in allied activities like poultry farming, dairy farming, waiving of restructured loans and inclusion of farmers from dry regions (Ramakrishna, n.d).

The impact of the agriculture loan waivers on the NPAs shows that there was a sharp increase in NPAs from 2008-2009 reflecting the moral hazard that the scheme was critiqued for. Data from Reserve Bank of India reports showcase the aforementioned (Lokare, 2017):

Year (End of March)	Total Gross Advances	Gross NPAs	Growth in Gross NPAs (Percentage %)
2002	645,865	71,113	13.1
2003	739,125	70,042	-1.5
2004	859,092	63,538	-9.3
2005	1,125,056	58,024	-8.7

2006	1,473,723	51,243	-11.7
2007	1,893,775	49,997	-2.4
2008	2,331,750	55,695	11.4
2009	2,788,424	68,216	22.5
2010	3,264,907	81,808	19.9
2011	3,992,145	94,121	15.1
2012	4,666,337	137,102	45.7

Table-1 (Gross NPAs in Agriculture)



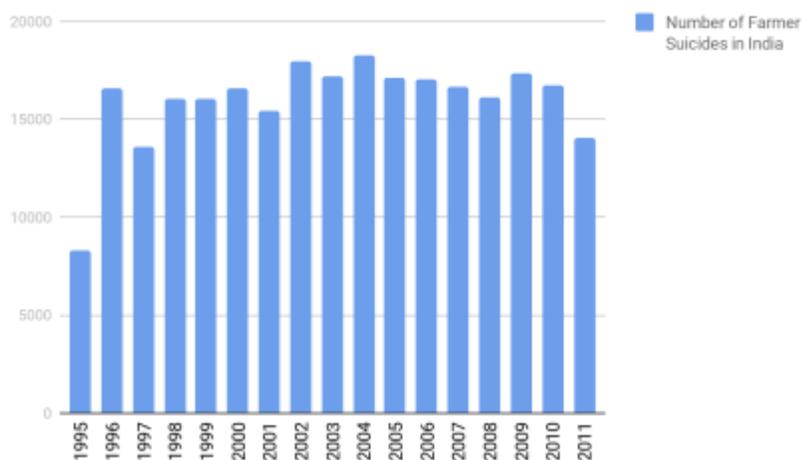
The data presented in Table-1 showcases a clear increase in the amount of Non Performing Assets (NPAs) post 2008 which leads to the implication that farm loan waivers create a moral hazard that goes unaddressed as the scheme punishes those who are productive and ensure that their loans are paid off. Although since 2002 the Total Gross Advances have steadily increased while the NPAs were gradually decreasing until 2007 and 2008 wherein the decrease could be attributed to the government waiving off loans. A significant increase in the number of NPAs post-2008 is seen and can be attributed to a shift in the mindset towards repayment of loans as such.

The other critique that this scheme received is that the scheme would not be able to provide assistance to tenant farmers who would not be able to borrow loans on the land they farm on because they do not own the land. The distress of these farmers is majorly required to be addressed as about 10 per cent of the total agricultural areas was under tenant cultivation but this was not addressed by the Government (Meena, 2017). The scheme however was praised for relieving the distress of small and marginal farmers across the country however it is important to analyse the impact of the scheme in relieving the distress of farmers to realise whether the scheme was successful in accomplishing its intended result.

Impact of the Agricultural Debt Waiver or Debt Relief Scheme on Farmer Suicides in India

The data on suicides in India although available since 1967 by the National Crime Records Bureau through its Accidental Deaths and Suicides in India but specific data on farmer suicides has only been assessed since 1999. The trend of farmer suicides can be tracked through this report to understand the situation in India with regards to the distress of farmers. The trend of the same is recorded below (NCRB, n.d):

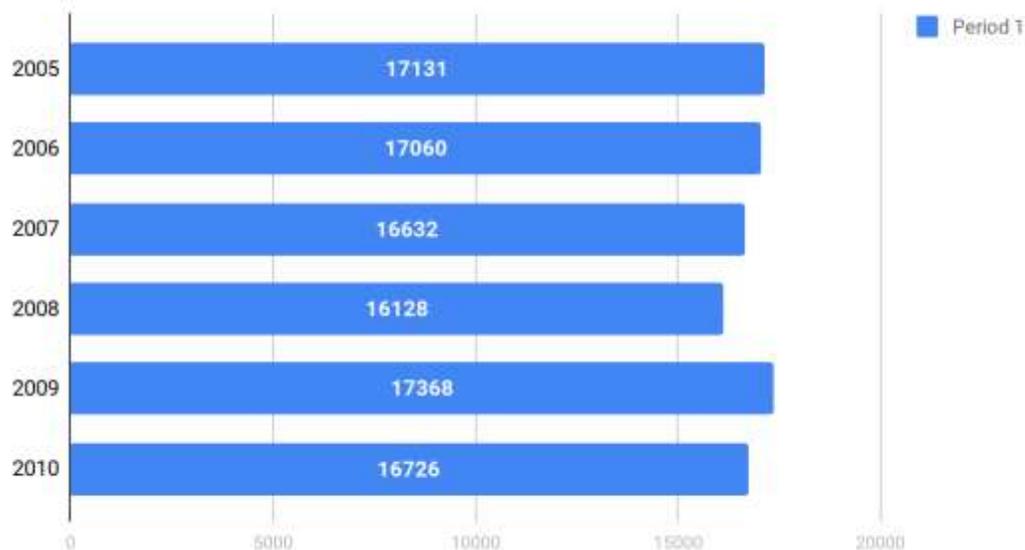
Table-2 (Number of Farmer Suicides in India)



The overall trend of the farmer suicides in India from 1995 to 2004 was an increasing one where the number of suicides has been gradually increasing. However, from the year 2005 there has been

a gradual decrease in the deaths of farmers which has led to there only one instance since 2004 wherein there has been a recorded increase in the number of suicides committed. The result of the farm loan waiver has not been noticeable however when the farmer suicides in the year following the implementation of the nation-wide loan waivers.

Table-3 (Overview of the effect on farmer suicides)



Following the implementation of the loan waiver an increase of farmer suicide rates was seen in India following which the trend of farmer suicide rate stabilised again. This goes to show that the relation between farmer suicide rate and loan waivers is weak even if it exists in the first place. The weak relationship is reiterated when the Andhra Pradesh and Telangana loan waiver is analysed although it is difficult to showcase a trend due to change in methodology in the report post 2013.

Table-4 (Farmer suicides following the implementation of the loan waiver in Andhra Pradesh)

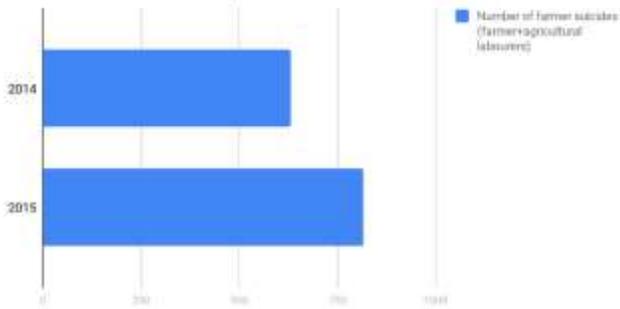
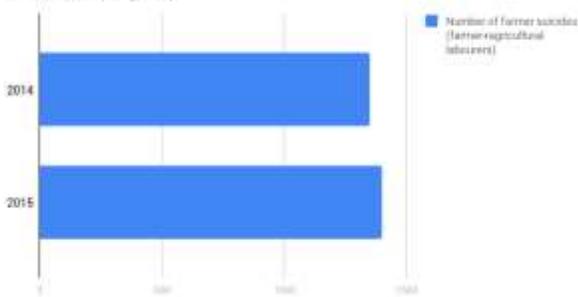


Table-5 (Farmer suicides following the implementation of the loan waiver in Telangana)



The droughts in Andhra Pradesh and Telangana were a factor in the increase of farmer suicides in the States in question. Given evidence, however, mainly in the case of the ADWDRS scheme of the Union Government goes to show that there is a weak relationship of loan waivers and the trendline of farmer suicide rates according to available current data and figures.

Inferences

The major inference from the data presented in the paper points towards a weak relationship between the farmer loan waiver schemes and the distress of farmers in India. This not only showcases the need for viable and sustainable solutions in Agriculture but also emphasized importance for evidence-based policies in the Indian policy landscape.

The use of loan waivers to appease farmers who constitute a major vote bank and in turn are a major factor in elections is a major example of the politicisation of economic issues which leads to inefficient and often harmful economic decisions being made for political gains.

Loan waivers also create a moral hazard as by their very nature they do not reward productivity and lead to undesirable changes in mindset of the domestic households towards repayment of loans creating issues in the rural credit system. They also lead to spending over the budgetary expenditure leading to fiscal deficits.

The policies of loan waivers as present cost governments for a assumed idea that farmers distress will have been relieved without data or evidence to back up the claim. Thus to ensure that loan waivers lead to economic growth or atleast relieve stress among farmers loan waivers have to be subjected to policy impact evaluations to map out the results and consequences of schemes that provide for waiving of loans especially with respect to waivers provided to farmers/agriculturists. The need for governments to move away from loan waivers and towards making investments in human capital and infrastructure is necessary in order to ensure use of public money in achieving tangible results and change especially in cases like the ones of Madhya Pradesh and Chhattisgarh.

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