



## Farm Loan Waivers in India

**For Prelims:** [Farm Loan Waiver](#), [State Bank of India \(SBI\)](#), [Comptroller and Auditor General](#), [NABARD](#), [Reserve Bank of India](#), [Inflation](#), [Minimum support prices](#), [Kisan Credit Card scheme](#)

**For Mains:** Government Policies & Interventions, Growth & Development, Farm Loan Waivers and Related Issues.

**Source:** TH

### Why in News?

[Farm loan waivers](#) have become a staple promise in [Indian elections](#), particularly in agricultural states.

- These debt relief schemes, though providing temporary respite, fail to address the **root causes of agrarian distress**.

### What are Farm Loan Waivers?

- **About:** Farm loan waivers are **financial relief measures** implemented by governments, where certain agricultural loans are forgiven, relieving farmers from the burden of repayment to reduce the distress among farmers.
  - These waivers are often announced during election campaigns as promises to garner support from the farming community.
  - Farm loan waivers involve the **government absorbing the outstanding debt of farmers by providing a budgetary allocation to banks and financial institutions**.
  - Farmers face numerous challenges, including disputed land holdings, depleted groundwater reserves, poor soil quality, rising input costs, and low crop productivity.
    - Due to a lack of assured remuneration for their produce, farmers often borrow funds from banks or private lenders at high-interest rates.
  - **Loan waivers provide temporary relief to indebted farmers**, but they are not a long-term solution to agrarian distress.
- **Implementation of Waivers:**
  - In times of crop failure or natural calamities, governments may waive penal interest, reschedule loans, or completely waive off outstanding loans.
  - **The government's budget absorbs the financial liability, not the banks.**
  - The waivers can be selective, based on factors like **loan type (short-term, medium-term, long-term)**, **categories of farmers**, or **loan sources**.

**Farm Loans:** Scheduled banks offer loans to individual farmers or groups of farmers for agricultural or allied activities such as [dairy](#), [fishery](#), [animal husbandry](#), poultry, [bee-keeping](#) and [sericulture](#).

- Short-term (up to 18 months) loans are offered for raising crops during two seasons – Kharif and Rabi, while medium (more than 18 months up to 5 years) and long-term (beyond 5 years) loans are

offered for purchasing agricultural machinery, irrigation and other developmental activities.

- Loans are also available for **pre-harvest and post-harvest activities** such as weeding, harvesting, sorting, and transporting farm produce.
- Most loans have a repayment period** in installments up to five years, and interest rates vary depending on the nature of loans and the issuing banks.

## Historical Instances of Farm Loan Waivers

- The first pan-India farm loan waiver was introduced in the 1990-91 through the **Agricultural and Rural Debt Relief Scheme (ARDRS)** providing relief to farmers for up to Rs 10,000 on select loans.
- The second major waiver was the **Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS)** announced in 2008.
  - The government allocated Rs 60,000 crores for farmer relief. **Small farmers with less than 2 hectares of land had their entire eligible amount waived off.**
  - Other farmers with more than 2 hectares of land were offered a one-time settlement (OTS) of 25% of the eligible amount as a rebate, if they pay the remaining 75%.
- According to a study by **State Bank of India (SBI)**, since 2014, various state governments, including Andhra Pradesh, Telangana, Uttar Pradesh, Maharashtra, Karnataka, Punjab, Madhya Pradesh, Chhattisgarh, Jharkhand, and Tamil Nadu, have announced loan waivers amounting to **Rs 2.52 lakh crores**.

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Status of Various Farm Loan Waivers				
	Year of Loan Waiver	Amount of Loan Waiver (Rs crore)	Eligible Farmers (in lakh)	% of Farmers Loan Waiver Received (till Mar'22)
Uttar Pradesh	2017	36,000	39	52%
Maharashtra	2017	34,000	67	68%
	2020	45,000	44	91%
Andhra Pradesh	2014	24,000	42	92%
Karnataka	2018	44,000	50	38%
Punjab	2018	10,000	8	24%
Madhya Pradesh	2018	36,500	48	12%
Chhattisgarh	2018	6,100	9	100%
Telangana	2014	17,000	51	5%
Jharkhand	2020	-	9	13%
Total (10 instances)	-	2,52,600	368	51%

Source: SBI Research

Farm loan waivers between 2014 and 2022

## How Do Farm Loan Waivers Affect Farmers and Governments?

- Effects on Farmers:**
  - Waivers provide **short-term relief to farmers** struggling with debt, especially in the wake of poor harvests due to natural calamities.
  - Critics argue that **waivers can lead to a culture of non-repayment**, expecting future waivers, which can undermine the credit discipline among the farming community.
    - Post-waiver periods often see a tightening of credit as banks become wary of lending, potentially affecting the farmers' ability to invest in the next crop cycle.
  - A report by the **Comptroller and Auditor General (CAG)** found that the 2008 scheme benefitted **several ineligible farmers** while **leaving out many deserving small and**

**marginal farmers.**

- **Implementation Challenges:** A recent SBI study in 2022 revealed that only **half of the beneficiaries of the nine farm loan waivers** announced by State governments since 2014 have **actually received write-offs**.
  - **Maharashtra** had a relatively high implementation rate. In contrast, **Telangana had the poorest implementation.**
- **Effects on Governments:**
  - **Negative Impacts:**
    - The most immediate impact is the **strain on government finances**. Waiving loans means forgoing a significant amount of revenue that could be used for other social programs or infrastructure development.
      - According to a **NABARD report**, the 1990 ARDR scheme cost the Central government Rs 7825 crores. States were forced to take additional loans from the **RBI to cover their share of the loan waivers.**
    - Large-scale loan waivers can increase government borrowing, leading to **higher interest rates and inflation**, undermining economic stability.
    - Additionally, waivers often fail to tackle core agricultural issues like **low crop prices and inadequate infrastructure, offering only short-term relief.**
  - **Positive Impacts:**
    - Farm loan waivers can **redirect funds from debt repayment to other areas**. This allows farmers to reinvest in agriculture by purchasing better inputs to increase productivity, and diversify into other agricultural activities like poultry, dairy, or horticulture to generate additional income.
    - Governments that implement loan waivers can gain political capital among the large farming population. A NABARD study from 1987 to 2020 found that **out of 21 State governments that announced waivers before State polls, only four lost.**

## What are the Alternatives to Farm Loan Waivers?

- **Increased Public Investment in Agriculture:** Allocate a higher share of budgetary resources towards agricultural development as a proportion of **total expenditure or GDP**, which has been falling each year. Focus on **irrigation, electricity, storage, and transportation**.
  - Ensure easy access to **quality, affordable agricultural inputs like seeds, fertilizers, and pesticides**. Strengthen the supply chain and distribution for these inputs.
  - Enhance investment in agricultural research to develop **drought-resistant and high-yielding crop varieties**, improve farming techniques, and promote sustainable agriculture.
  - Strengthen and expand agricultural **extension services to disseminate modern farming practices**, new technologies, and research findings to farmers, especially in remote areas.
- **Incentivize Crop Diversification:** Farmers focus mainly on crops like wheat and rice due to government **minimum support prices (MSPs)** and procurement assurance.
  - Expanding price support and procurement to **include oilseeds, pulses, fruits, and vegetables will incentivize crop diversification**.
  - Implementing supportive policies and promoting water-efficient crops suited to local conditions will enhance sustainability.
  - **For example:** Punjab is facing **severe depletion of groundwater reserves and soil degradation** due to overuse of urea. The State's farmers primarily grow wheat and rice, as these are the only viable crops due to government procurement.
- **Direct Income Support Schemes:** Implement direct income support schemes like **PM-KISAN** and **Kisan Credit Card scheme** as alternatives to loan waivers, ensuring efficient fund disbursement via **direct benefit transfers (DBT) and Aadhaar-based identification**.
- **Market Reforms and Access:** Improving the functioning of **Agricultural Produce Marketing Committees (APMCs)** can reduce exploitation by middlemen and ensure farmers get a fair share of the consumer rupee.
  - Encouraging wider adoption of the **Electronic National Agriculture Market (e-NAM) platform** can facilitate online trading and connect farmers directly to consumers, eliminating unnecessary intermediaries.

- **Farmer Producer Organizations (FPOs):** Farmers forming cooperative societies can benefit from **bulk buying seeds, fertilizers, and equipment, reducing costs and getting better deals.**
  - They can also collaborate on marketing and selling their produce to fetch fairer prices.
- **Risk Mitigation Strategies:** Offering affordable and accessible **crop insurance schemes** can protect farmers from financial losses due to natural calamities or **unforeseen events.**
  - Crop insurance based on weather parameters helps mitigate risks from unpredictable weather patterns.

**Drishti Mains Question:**

Q. Assess the efficacy of farm loan waivers in addressing long-term agrarian distress.

Q. Analyze the impact of recurring farm loan waivers on the financial health of the Governments and the overall economy.

**UPSC Civil Services Examination Previous Year Question (PYQ)**

**Q1. Under the Kisan Credit Card scheme, short-term credit support is given to farmers for which of the following purposes? (2020)**

1. Working capital for maintenance of farm assets
2. Purchase of combine harvesters, tractors and mini trucks
3. Consumption requirements of farm households
4. Post-harvest expenses
5. Construction of family house and setting up of village cold storage facility

**Select the correct answer using the code given below:**

- (a)** 1, 2 and 5 only
- (b)** 1, 3 and 4 only
- (c)** 2, 3, 4 and 5 only
- (d)** 1, 2, 3, 4 and 5

**Ans: (b)**

**Mains**

**Q.** Given the vulnerability of Indian agriculture to vagaries of nature, discuss the need for crop insurance and bring out the salient features of the Pradhan Mantri Fasal Bima Yojana (PMFBY). **(2016)**